



China Environmental Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 646



Annual Report
2020

CONTENTS

Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	4
Biographical Details of Directors and Senior Management	9
Corporate Governance Report	14
Report of the Directors	27
Independent Auditor's Report	38
Consolidated Statement of Profit or Loss and Other Comprehensive Income	44
Consolidated Statement of Financial Position	46
Consolidated Statement of Changes in Equity	48
Consolidated Statement of Cash Flows	49
Notes to the Consolidated Financial Statements	51
Five Year Financial Summary	117



CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS:

Mr. Xu Jingping (*Chairman*)
(*appointed on 23 December 2020*)
Mr. Yang Baodong
Ms. Hu Yueyue

NON-EXECUTIVE DIRECTORS:

Mr. Xu Zhongping
(*re-designed from executive Director and Chairman to non-executive Director on 23 December 2020*)
Mr. Ma Tianfu

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Tse Chi Wai
Prof. Zhu Nanwen
Prof. Li Jun

AUDIT COMMITTEE

Mr. Tse Chi Wai (*Chairman*)
Prof. Zhu Nanwen
Prof. Li Jun

REMUNERATION COMMITTEE

Mr. Tse Chi Wai (*Chairman*)
Prof. Zhu Nanwen
Prof. Li Jun

NOMINATION COMMITTEE

Mr. Xu Jingping (*Chairman*)
(*appointed on 23 December 2020*)
Mr. Tse Chi Wai
Prof. Zhu Nanwen
Prof. Li Jun

COMPANY SECRETARY

Mr. Li Wang Hing, Nelson

INDEPENDENT AUDITOR

ZHONGHUI ANDA CPA Limited
Certified Public Accountants

LEGAL ADVISERS

Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
Second Floor, Century Yard, Cricket Square,
P.O. Box 902,
Grand Cayman, KY1-1103,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Second Floor, Century Yard, Cricket Square,
P.O. Box 902,
Grand Cayman, KY1-1103,
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 901,
New Tech Plaza
34 Tai Yau Street,
San Po Kong
Kowloon
Hong Kong
Tel: (852) 2511 1870
Fax: (852) 2511 1878

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 646

PRINCIPAL BANKERS

Hang Seng Bank Limited

COMPANY WEBSITE

www.cethl.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board (the “**Board**”) of Directors (the “**Directors**”) of China Environmental Technology Holdings Limited (“**CETH**” or the “**Company**”, together with its subsidiaries collectively referred to as the “**Group**”), I am pleased to present to the shareholders the annual results of the Group for the year ended 31 December 2020.

The COVID-19 pandemic rages in 2020 which is a turbulent year for the world economy. China has become the only country with positive economic growth in the world's major economies. Under the extremely severe economic situation, the Company won the victory in the winding-up case in the Hong Kong High Court and the victory in the civil lawsuit in Singapore in 2020, clearing up the pollution, restoring the Company's financing function, and effectively protecting the rights and interests of shareholders.

At the same time, the Group's main environmental protection business has achieved substantial growth against the trend in this year. Compared with the previous year, operating income has increased by more than 58%, and gross profit margin has also risen sharply. This has consolidated the Group's market advantages in sub-sectors and laid a foundation for the Group's new development strategy for environmental protection. In the new financial year, the Group will actively adopt an aggressive strategy and give priority to supporting the integration of resources in the environmental protection business, so as to stabilize the current sound development trend of the environmental protection business.

In response to historical problems in the healthcare sector, the Group adjusted the strategic thinking and business layout of the healthcare sector's development in a timely manner in this year, actively discussed business opportunities in the fields of biological cell technology and immunological therapy and designed the blueprint and plans for the Group's future new business development, and actively negotiated with potential partners to create positive conditions for the development of the healthcare business and promote the development of the healthcare business step by step.

In this year, all members of the Group actively contributed their efforts to the development and transformation of the Group in different positions for the common cause and achieved phased results. Although I only joined the Group at the end of this year, I believe that the Company's growth under such difficult circumstances is the result of the team's high degree of collaboration, and I believe that more brilliant results will be achieved in the future.

Taking this opportunity, I sincerely thank the shareholders, directors, and partners of the Group for their support, the trust of customers, and the contributions of all staff.

On behalf of the Board

Mr. Xu Jingping

Chairman

Hong Kong, 31 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended 31 December 2020, the Group recorded a revenue of approximately HK\$53,500,000 (2019: approximately HK\$33,787,000), representing an increase of about 58.34% compared to that of 2019. The Group's loss attributable to owners of the Company was approximately HK\$68,051,000 (2019: approximately HK\$260,883,000), representing a decrease of about 73.92% as compared to that of 2019. Gross profit margin was significantly improved to approximately 32.48% as compared to 14.51% in last year.

BUSINESS REVIEW

FOR WASTEWATER TREATMENT

The wastewater treatment business of the Group has not been affected by the epidemic. Instead, its business volume has bucked the trend and achieved greater growth. Among them, newly signed orders in 2020 increased by 31.5% compared with the previous year, sales revenue increased by 58.3% compared with the previous year, gross profit increased by 254.6% compared with the previous year, and a total of 12 wastewater projects were actually delivered to customers in the whole year. In terms of continuous innovation, the Group applied for 15 new patents with the China National Intellectual Property Administration in 2020, of which 7 are invention patents and 8 are utility model patents. This year, the Group's core technology was selected into the "Major Environmental Protection Technology and Equipment Catalogue Encouraged by the State" by the Ministry of Industry and Information Technology. A standard organized by the China Engineering Construction Standardization Association that the Group participated in was promulgated, and a standard of the Ministry of Housing and Urban-Rural Development Standards Division, in which the Group was the only participant in respect of magnetic coagulation technology, entered the stage of submission for review. In addition, the Group is acting as the editor-in-chief of a standard that is being designated by the China Environmental Protection Machinery Industry Association. The Group further consolidated its technical and brand advantages in its market segments, which is becoming the core business platform of the Group.

FOR HEALTHCARE

The Group has reformed its healthcare sector business by re-positioning itself as biotechnology institute, emphasizing on researches in immune cells, cell storage, macromolecular drugs and vaccine development, as well as other life science and technologies related clinical applications and development. The Group is completing its healthcare business platform and is expecting to gain new development opportunities in nearby future.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

FOR WASTEWATER TREATMENT

The Group will rely on its technical and brand advantages, vigorously support the development plan of wastewater treatment business, and make the Group's wastewater treatment business bigger and stronger in respect of capital guarantee, resource integration and incentive mechanism construction, and strive to achieve leapfrog development in environmental protection business.

FOR HEALTHCARE

The Group will adopt a prudent and pragmatic principle to introduce professional investment institutions on the new healthcare business platform, develop professional partners, and carry out investment and cooperation in the fields of major immune cell diagnosis and treatment, biological cell technology research, chronic disease management, and protein recombinant vaccines. The Group will follow the future development trend, promote the commercialization of the project, and lay a solid foundation for the long-term development strategy of the Group in the future, in order to realize the transformation of the Group.

CONCLUSION

In 2020, despite the raging COVID-19 pandemic, with the concerted efforts of the entire group, the Group managed to reduce losses substantially while the Group's wastewater treatment business continued to forge ahead and the healthcare business sector has repositioned itself in new areas after shocking the chaos.

The Group will continue to focus on shareholders, customers, employees and society, focus on value creation and social benefits, take risk control as a guarantee, be prudent and pragmatic, and build a sound development foundation for the business.

MANAGEMENT DISCUSSION AND ANALYSIS

EMOLUMENT POLICY

As at 31 December 2020, the Group had 70 employees (2019: 62 employees). The remuneration policy and packages are reviewed annually by the management and the Remuneration Committee. The Group remunerates its employees based on their performance, work experience and the prevailing market rate. The remuneration packages include basic salary, double pay, commission, insurance and mandatory provident fund. The Group operates a share option scheme for the purpose of providing incentives and rewards to (among others) eligible Directors and employees of the Group to recognise their contribution to the result of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

LIQUIDITY

As at 31 December 2020, the total cash and bank balances of the Group were approximately HK\$1,194,000 (2019: approximately HK\$3,351,000). The cash and bank balances consisted of about 42.03% in Hong Kong dollars, 57.89% in Renminbi and 0.08% in US dollars.

As at 31 December 2020, the Group had total assets of approximately HK\$75,570,000 (2019: approximately HK\$71,380,000) and total liabilities of approximately HK\$613,251,000 (2019: approximately HK\$536,605,000). As at 31 December 2020, the current ratio was 0.13 (2019: 0.16), calculated on the basis of current assets of approximately HK\$70,963,000 (2019: approximately HK\$61,626,000) over current liabilities of approximately HK\$532,260,000 (2019: approximately HK\$396,585,000).

The Group's borrowings amounted to approximately HK\$203,171,000 (2019: approximately HK\$174,518,000). The Group's borrowings are denominated in Renminbi, Hong Kong dollars and United States dollars, bearing fixed interest rates / coupon rate. The Group's gearing ratio, being the ratio of the total debts to total assets, was 268.85% (2019: 244.49%).

CHARGE ON ASSETS

As at 31 December 2020, the Group's bills receivable of approximately HK\$8,456,000 (2019: HK\$1,812,000) were pledged to secure bank borrowing of approximately HK\$8,456,000 (2019: HK\$1,812,000).

MANAGEMENT DISCUSSION AND ANALYSIS

DETAILS REGARDING THE QUALIFIED OPINION ISSUED FOR THE YEAR ENDED 31 DECEMBER 2020

1. DECONSOLIDATION OF THE PACIFIC FERTILITY INSTITUTES HOLDING COMPANY LIMITED (“PFI CAYMAN”) AND ITS SUBSIDIARIES (“PFI CAYMAN GROUP”)

As explained in the Group’s annual report for the year ended 31 December 2019 on page 7 to 9, PFI Cayman Group was deconsolidated from the Group since 1 January 2018. But due to the inherent limitation, no such objective verifiable evidence could be provided to satisfy the Company’s auditors, ZHONGHUI ANDA CPA Limited (“ZHONGHUI”) as to whether the date on which the Company had lost control of PFI Cayman Group was 1 January 2018 or any dates afterwards. However, since PFI Cayman Group was put into provisional liquidation in June 2019 and subsequent liquidation, it was confirmed that PFI Cayman Group should not be consolidated into the Group’s consolidated financial statements after June 2019.

Despite the fact that ZHONGHUI did not issue audit qualification to the Group’s financial position as at 31 December 2019 and 31 December 2020, the modified audit opinion in the financial year ended 31 December 2018 had a carrying effect to 2019 financial year, and therefore, there was a modified audit opinion on the Group’s consolidated financial performance for the year ended 31 December 2019.

2. LIMITED ACCOUNTING BOOKS AND RECORDS OF PACIFIC FERTILITY INSTITUTES (SINGAPORE) PTE LTD. (“PFI SINGAPORE”)

As explained in the Group’s annual report for the year ended 31 December 2019 on page 9 to 12, PFI Singapore was deconsolidated from the Group since 22 February 2019. But due to the insufficiency of supporting documentation and explanations for accounting books and records, ZHONGHUI cannot obtain sufficient evidence to satisfy themselves, in relation to the deconsolidated subsidiary, as to the completeness of the transactions of the Group for the period from 1 January 2019 to 22 February 2019, and as to the accuracy of the gain on deconsolidation of the subsidiary of approximately HK\$27,564,000 for the year ended 31 December 2019.

3. ONEROUS CONTRACT AND PROVISION FOR DAMAGES ON TERMINATION OF LEASE

In 2019, the Group disposed the women’s and children’s hospital in construction (the “Hospital Project”) and stopped the lease payments under the 20-year long term non-cancellable lease contract (the “Lease Contract”) in relation to the Hospital Project, which caused the Landlord to officially cease the Lease Contract (the “Cessation”). The Group had a) engaged legal counsel to issue formal legal opinion on the possible claim from landlord; b) obtained written confirmation from the Hospital Project (after it had been sold) for the amount of annual lease that the new management was willing to pay; c) engaged one of the largest property agent in China to provide evidence on the market rate of the property; in order to estimate the provision for such contingent claim due to the Cessation. As a result, ZHONGHUI were satisfied that adequate but not excessive provision was made as at 31 December 2019 and 31 December 2020 and there was no uncertainty arising from the Lease Contract on or beyond 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

However, ZHONGHUI considered that they have not obtained sufficient audit evidence on how the consequential accounting treatments of the Lease Contract would affect the consolidated profit or loss for the years ended 31 December 2019, including the net gain on the Cessation of approximately HK\$13,112,000 for the year ended 31 December 2019.

As stated in the Independent Auditor's Report for the year ended 31 December 2020, the above mentioned audit qualifications might have consequential effects on the consolidated financial performance and consolidated cash flows for the year ended 31 December 2019 and the related disclosures thereof in the consolidated financial statements. In other words, the Company's auditors did not qualify the consolidated financial position of the Group as at 31 December 2019 and 31 December 2020 as well as the Group's consolidated financial performance and consolidated cash flows for the year ended 31 December 2020. Therefore, in the opinion of the Directors, all of the above mentioned audit qualifications will be removed in the next year's auditor's report.

The Audit Committee has duly reviewed the audit modifications and discussed with ZHONGHUI regarding the Qualified Opinion during the Audit Committee meeting held on 30 March 2021. The Audit Committee has agreed with the management's position, which was no difference from that of ZHONGHUI.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Xu Jingping, aged 59, brother of Mr. Xu Zhongping, graduated from China University of Political Science and Law with a bachelor's degree in law. Mr. Xu Jingping was a principal staff of the Auditing Department of the People's Bank of China and has over 20 years in department store management, in particular, high end branded stores and factory outlets. Since 2002, Mr. Xu Jingping involves in commercial real estate sector and property consultancy work. From May 2008 to June 2015, Mr. Xu Jingping was one of the senior managements in department store operations of Powerlong Real Estates Holdings Limited (01238.HK). Before joining the Company, Mr. Xu Jingping was a director of private real estate consultancy firm.

Mr. Xu Jingping was a director or legal representative of each of the following private companies registered in the People's Republic of China prior to their respective dissolution and/or revocation of business licenses: Guangzhou Haizhu District Helede Trading Company* (廣州市海珠區合利德貿易公司) by way of voluntary liquidation in 1998 due to cessation of business; Beijing Xing Ma Tai Trading Company Limited* (北京星馬泰商貿有限公司), Chengdu Jinfu Industrial Company Limited* (成都錦福實業有限責任公司) and Beijing Donghao Advertising Co., Ltd.* (北京東豪廣告有限公司) by way of revocation of business licenses in 2006, 2007 and 2009, respectively due to being inactive with no business commenced for certain period. Mr. Xu Jingping confirmed that each of the said companies was solvent at the time of its dissolution or revocation of business license; there was no wrongful act on his part leading to the above dissolution or revocation of business license; and that such dissolution and revocation of business license had not resulted in any liability or obligations being imposed against him.

Mr. Yang Baodong, aged 46, graduated from Wuhan University of Surveying and Mapping, majoring in urban construction, bachelor of engineering, and registered project management expert of the American Project Management Institute. Joined the Group in 2014, successively served as assistant to the President and Vice President of the Group, and was appointed as the executive Director of the Company in June 2019. Mr. Yang Baodong has been engaged in management for 22 years in various industries such as construction, energy and environmental protection. He has more than 10 years of work experience in listed companies in Hong Kong, and has extensive experience in project management, investment mergers and acquisitions, and mid- and long-term planning of enterprises. From May 2015 to present, he has served as vice president of the company and general manager of Beijing Jingrui Kemai Water Purification Technology Co., Ltd., leading Beijing Jingrui to compile two national standards and newly applied for more than ten patents, becoming a leading enterprise in subdivided industries. Mr. Yang Baodong worked for China Gas Holdings Limited from July 2007 to April 2013, a company listed on the main board of the Hong Kong Stock Exchange (stock code: 00384), and also successively served as the assistant general manager of China Gas Aisika Energy Holdings Co., Ltd., a joint venture between China Gas and South Korea SK Group, assistant General Manager of Planning and Development Department of China Gas Group. During his tenure, he was mainly responsible for industrial research, development and mergers and acquisitions, investment analysis, asset restructuring, introduction of corporate governance structure system of the urban pipeline gas projects, decentralized energy, biomass power plants, and natural gas power plants, as well as the establishment of the group's mid- and long-term plans and strategic plans, enterprise management system reform design and other work. From April 2013 to March 2014, he served as general manager of the project department of Guangdong Yueshang High-tech Co., Ltd., mainly responsible for the company's overall investment business development, including investment in technology real estate projects and equity projects and project mergers and acquisitions.

* For identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Hu Yueyue, aged 41, is an executive Director of the Company. She has over 10 years experiences of investment and management in the healthcare sector. She has led many investment projects in the healthcare sector and relevant post-investment management. Ms. Hu started her career in sales and marketing with General Electric in Shenzhen. Before joining us, she served as a managing director of China Huarong International Holdings Limited in Hong Kong and was in charge of the private equity investment business department that primarily focus on healthcare sector. Prior to that, she served as a managing director in Golden Harmony Capital and was responsible for managing the company's investments. She also previously worked in New Horizon Capital in Beijing and was highly involved in investment, portfolio management and fundraising. Ms. Hu obtained a Bachelor degree from Tsinghua University, a Master degree from Yale University, and an MBA degree from Massachusetts Institute of Technology. Ms. Hu did not have any directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

NON-EXECUTIVE DIRECTORS

Mr. Xu Zhongping, aged 58, he was re-designated from executive Director and chairman of the Board and chairman of nomination committee to non-executive Director of the Company with effective from 23 December 2020. He graduated from Nanjing University of Finance and Economics with a bachelor's degree. He has over 30 years of experience in corporate management, business investment and international economic strategic cooperation.

He independently created the famous domestic fashion brand Yinmeng Fashion* (銀夢時裝) in the 1990s, and cooperated with China New Technology Venture Capital Corporation* (中國新技術創業投資公司) to establish the most famous department store Beijing Scitech Plaza* (北京賽特購物中心) after the reform and opening-up, serving as its first managing director. He led the introduction of the largest supermarket chain, Carrefour* (家樂福連鎖超市集團), in France into China, serving as vice chairman and vice president on behalf of the Chinese side, and set up nearly 100 Carrefour supermarkets in Beijing, Shanghai and other major capital cities. He served as an executive director of the China International Economic and Cultural Promotion Association* (中國國際經濟文化促進會) in Hong Kong, promoting hundreds of economic and cultural exchanges between Hong Kong and the Mainland. From 2009 to date, he has become the controlling shareholder of the Company as a major shareholder together with several partners.

Mr. Ma Tianfu, aged 74, is a non-executive Director of the Company. Mr. Ma is a director of Gentle International Holdings Limited and Superform Investment Development Limited; he is also a director and senior engineer of Shanghai Shi Dong Kou Embankment Development Engineering Company Limited (上海石洞口圍堤開發工程有限公司). Mr. Ma graduated from Shanghai University of Electric Power (formerly known as Shanghai Electric Power School) in the PRC and completed a four-year study in thermal engineering automatic system in power plants and has years of experience in the field of electricity power engineering and construction projects. He was awarded a Science and Technology Progress Award of Shanghai in 1993 issued by the Science and Technology Progress Awards Jury of Shanghai Municipality. Mr. Ma was issued with a certificate as a researcher for life of the Enterprises Committee of the Chinese Academy of Management Science in 2002. Mr. Ma joined the Group in 2012.

* For identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tse Chi Wai, aged 53, is an independent non-executive Director of the Company. Mr. Tse has over thirty years of experience in areas of auditing, accounting and finance gained from working with various international accounting firms and listed companies. Mr. Tse graduated from the University of Hong Kong in June 1989 with a bachelor's degree in social sciences. Mr. Tse is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Tse is currently an executive director of Jih Sun Financial Holding Company Limited, the shares of which are listed in Taiwan. He is also an independent non-executive director of Hong Kong listed company, Great Water Holdings Limited (Stock Code: 8196). Mr. Tse was an independent non-executive director of Huarong Investment Stock Corporation Limited (Stock Code: 2277) from April 2016 to November 2020. He was an independent non-executive director of Chong Kin Group Holdings Limited (Stock Code: 1609) from January 2018 to August 2018, Winto Group (Holdings) Limited (Stock Code: 8238) from January 2018 to May 2019, Greens Holdings Limited (Stock Code: 1318) from March 2015 to November 2015 and Sunac China Holdings Limited (Stock Code: 1918) from December 2012 to December 2017. Mr. Tse stepped down as an executive director of China Information Technology Development Limited, a company listed on GEM of the Stock Exchange (stock code: 8178) with effect from 28 June 2019.

Professor Zhu Nanwen, aged 52, is an independent non-executive Director of the Company. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee respectively. Professor Zhu is a professor of Shanghai Jiao Tong University, a famous domestic expert of water and sludge disposal and an outstanding academic leader in Shanghai. He currently acts as the executive director of "Shanghai Solid Waste Treatment and Recycling Engineering Research Centre", a member of the Technical Guidance Committee of "National Environmental Protection and Engineering Technology Centre for the Treatment and Disposal of Household Wastes in Villages and Towns", the "Technical Committee of City Appearance and Environmental Sanitation Standardization under the Ministry of Housing and Urban-Rural Development" and the Academic Committee of "Zhejiang Provincial Key Laboratory of Solid Waste Treatment and Recycling", a project evaluation expert of the Ministry of Science and Technology, the Ministry of Housing and Urban-Rural Development and the Ministry of Ecology and Environment, a core expert in environmental development planning of Shanghai Science and Technology Commission and an editorial board member of "Water Purification Technology". He has engaged in the research of solid waste, wastewater treatment technology for a long period. He owns 43 invention patents and 7 utility model patents. Professor Zhu joined the Group in 2009.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Prof. Li Jun, aged 56, is an independent non-executive Director of the Company. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee respectively. He is the Registered Environmental Protection Engineer, a professor and PhD student tutor in Beijing University of Technology, director of Research Institute of Municipal Engineering and Supervisor of Sewage and Sludge Treatment and Recycling Technology Research Laboratory in Beijing University of Technology. He obtained the Doctorate Degree in Environmental Engineering from Harbin Institute of Technology in 1995. From 1996 to 1999, he worked as a post-doctorate researcher in Chiba University of Japan. Prof. Li has been engaged in the research for sewage treatment technology for many years and completed over 40 national and provincial subjects research. He is a well-known domestic expert in water affair. He is currently the director of China Water Industry Association CCES, the standing director of the Committee of Water Recycling of Chinese Society of Environmental Science, the deputy director of Water Pollution Control Committee of China Association of Environmental Protection Industry, Deputy Secretary General of the Committee of Environmental Engineering of Chinese Society of Environmental Sciences and the evaluation expert of National Natural Science Foundation of China and National 863 Program. Prof. Li joined the Group in 2016.

SENIOR MANAGEMENT

Mr. Liu Dong, holds a bachelor's degree in engineering majoring in mechanical and electrical engineering from Northwestern Polytechnic University; graduated from a postgraduate course in business management at Capital University of Economics and Business. Mr. Liu is currently the executive general manager of the core subsidiary Beijing Jingrui Kemai Water Purification Technology Co., Ltd., responsible for the company's daily operation and management. He has 30 years of experience in the military, automotive, construction, and environmental protection industries, as well as mid- and high-level management experience in the enterprise; strong enterprise operation and comprehensive management capabilities in enterprise management and technical management. Mr. Liu has been working in Shaanxi Aircraft Industry (Group) Co., Ltd. since 1989. He has successively served as a technician, aircraft instrument engineer, and company representative in the field. He has worked in Beiqi Foton Motor Co., Ltd. since 2000. He has held various positions such as minister, deputy director of the business department, and deputy general manager of the independent legal person company. Since 2010, Mr. Liu worked in a number of environmental protection companies, successively served as deputy general manager, executive deputy general manager and other positions, responsible for the company's daily operations and management.

Mr. Li Wang Hing, Nelson, is the Company Secretary of the Company. Mr. Li holds a master degree of business administration from the University of Leicester in U.K. and a master degree of professional accounting from the Hong Kong Polytechnic University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and is also a qualified Chartered Secretary designated as fellow member of both The Institute of Chartered Secretaries and Administrators, United Kingdom and The Hong Kong Institute of Chartered Secretaries. At present, he is the Honorary Auditor of Hong Kong Seamen's Union and the Council Member of Shipping Employees Union.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Shi Chen, is the Group's financial controller. Ms. Shi holds an MBA degree from Renmin University of China. Ms. Shi is a non-practicing member of the Chinese Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales. She graduated from Renmin University of China with a master's degree in business administration. Ms. Shi has 17 years of professional work experience in the financial field of enterprises and accounting firms. She has extensive experience in financial analysis, financial management, auditing, tax planning, corporate due diligence and mergers and acquisitions.

Ms. Zhang Xuyang, joined the Company in October 2019 as the director of Internal Audit of the Company with more than 18 years' experience in finance and accounting industry. She started her career in PricewaterhouseCoopers as an auditor and she worked for Asia Info Inc., Vance Info Technologies Inc. and iQiyi, Inc. as director of investor relations department, associate vice president of corporate strategy and financial director, respectively. Her experience covered capital market management, financial communications, corporate finance management and merger & acquisition deals. From August 2016 to April 2019, Ms. Zhang also served as an independent non-executive director and chairman of audit committee of Life Healthcare Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 00928). Ms. Zhang graduated from School of Economics and Management, Tsinghua University with Master of Management and Bachelor of Economics, and she was a member of Chinese Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report in the Group's annual report for the year ended 31 December 2020.

The manner in which the principles and code provisions in the Corporate Governance Code (“CG Code”) contained in Appendix 14 of the Listing Rules are applied and implemented is explained as follows:

CORPORATE GOVERNANCE PRACTICES

The Board recognises that corporate governance practices are crucial to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholder value. The Company is committed to achieving and maintaining a high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures.

The Company has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) under Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The Board is of the opinion that the Company has complied with all the code provisions.

The Board is of the view that this management structure is effective for the Group's operations and sufficient checks and balances are in place. The Board will continue to review its corporate governance practices, in order to enhance its corporate governance standard, to comply with regulatory requirements and to meet the growing expectations of the shareholders of the Company and investors.

CORPORATE GOVERNANCE REPORT

THE BOARD

RESPONSIBILITIES

The management and control of the business of the Company are vested in its Board. It is the duty of the Board to establish policies, strategies and plans, and to provide leadership in the attainment of the objective of creating value to shareholders.

The positions of the Chairman and the Chief Executive Officer are held by separate persons. The Chairman is responsible for the management of the Board and the formulation of strategies and policies of the Company. The Chief Executive Officer is responsible for the management of the business and overall operations. The senior management was delegated the authority and responsibilities for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their respective terms of reference.

BOARD COMPOSITION

The Company has adopted the recommended best practice under the CG Code. The Board has a balanced composition of executive and non-executive Directors to ensure independent viewpoints in all discussions. The Board currently comprises eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors.

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

Executive Directors:

Mr. Xu Jingping (*Chairman*) (*appointed on 23 December 2020*)

Mr. Yang Baodong

Ms. Hu Yueyue

Non-Executive Directors:

Mr. Xu Zhongping (*re-designed from executive Director and Chairman to non-executive Director on 23 December 2020*)

Mr. Ma Tianfu

Independent Non-Executive Directors:

Mr. Tse Chi Wai

Prof. Zhu Nanwen

Prof. Li Jun

CORPORATE GOVERNANCE REPORT

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the CG Code.

Except that Mr. Xu Jingping and Mr. Xu Zhongping are brothers, members of the Board are unrelated to one another.

During the year ended 31 December 2020, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. On this basis, the Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules. As at the date of this annual report, none of them had served the Company for more than nine years, except Prof. Zhu Nanwen. The Board is of the view that Prof. Zhu Nan Wan can continue to fulfill his role as required.

The executive Directors, with their intimate knowledge of the business, take on the primary responsibility for the leadership for the Company while the non-executive Director and independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgment to the Board. Independent non-executive Directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

At present, the Company does not have any officer with the title of “Chief Executive Officer”. The Chairman of the Board provides overall leadership for the Board and the Group’s business. The daily management is delegated to the executive Directors and the senior management. The Board shall review its structure from time to time to ensure appropriate action is being taken should suitable circumstances arise.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

In accordance with article 108(A) of the Articles of Association of the Company, all Directors are subject to retirement by rotation at least once every three years. In accordance with article 111 and article 112 of the Articles of Association of the Company, any new Director appointed to fill a casual vacancy or as an addition to the Board shall submit himself for re-election by shareholders at the next general meeting (in the case of filling a casual vacancy) or the next annual general meeting (in the case of an addition to the Board).

Code provision A.4.1 of the CG Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

CORPORATE GOVERNANCE REPORT

There is no service contract between the Company and Mr. Xu Zhongping, Mr. Ma Tianfu, the non-executive Directors, and Mr. Tse Chi Wai, Prof. Zhu Nanwen and Prof. Li Jun, the independent non-executive Directors. They were not appointed for any specific length of service with the Company.

Although the non-executive Directors and independent non-executive Directors do not have a specific term of appointment, all Directors are subject to retirement by rotation once every three years in accordance with the Company's Articles of Association.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

NOMINATION COMMITTEE

BOARD DIVERSITY POLICY

Purpose

The Board has established a Nomination Committee with authority, responsibility, and specific duties, including but not limited to, recommend to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive of the Company.

This Policy aims to set out the approach to achieve diversity on the Board. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development.

In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

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.

Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition (including gender, ethnicity, age, length of service) will be disclosed in the Corporate Governance Report annually.

CORPORATE GOVERNANCE REPORT

Monitoring and Reporting

The Nomination Committee will report annually, in the Corporate Governance Report, on the Board's composition under diversified perspectives, and monitor the implementation of this Policy.

Review of this Policy

The Nomination Committee will review this Policy, as appropriate, to ensure the effectiveness of this Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Reporting Procedures

This Policy will be published on the Company's website for public information.

A summary of this Policy together with the measurable objectives set for implementing this Policy, and the progress made towards achieving those objectives will be disclosed in the annual Corporate Governance Report.

As at 31 December 2020, the Nomination Committee comprised four members, namely Mr. Xu Jingping (Chairman), Mr. Tse Chi Wai, Prof. Zhu Nanwen and Prof. Li Jun.

The principal duties of the Nomination Committee include:

- (a) to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- (b) to develop and formulate relevant procedures for nomination and appointment of Directors;
- (c) to identify individuals suitably qualified to become a Board member;
- (d) to make recommendations to the Board on selection or appointment of individuals nominated for directorships and appointment or re-appointment of Directors and succession planning for Directors; and
- (e) to assess the independence of the independent non-executive Directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the coming annual general meeting of the Company.

A circular containing detailed information of the Directors standing for re-election at the coming annual general meeting of the Company shall be sent to the shareholders.

CORPORATE GOVERNANCE REPORT

INDUCTION AND CONTINUING DEVELOPMENT FOR DIRECTORS

Each newly appointed Director should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company may engage external legal and other professional advisers for providing professional briefing and training programmes to the Directors where circumstances arise. Continuing briefings and professional development to Directors will be arranged whenever necessary.

The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials, as well as providing appropriate professional knowledge and latest development of regulatory requirements related to Director's duties and responsibilities to all Directors through emails and relevant websites.

During the year of 2020, Directors attended a comprehensive, formal and tailored conduction as newly appointed and materials covering the updates of the Listing Rules, especially concerning the corporate governance and internal control have been given for Directors' review and study.

REMUNERATION COMMITTEE

As at 31 December 2020, the Remuneration Committee comprised three members, namely Mr. Tse Chi Wai (Chairman), Prof. Zhu Nanwen and Prof. Li Jun, all of them are independent non-executive Directors. The primary objectives of the Remuneration Committee include:

- (a) to make recommendations on the establishment of procedures for developing remuneration policy and structure of the executive Directors and the senior management, such policy shall ensure that no Director or any of his associates will participate in deciding his own remuneration;
- (b) to make recommendations on the remuneration packages of the executive Directors and the senior management;
- (c) to review and approve the remuneration packages of the executive Directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions; and
- (d) to review and approve the compensation arrangements for the executive Directors and the senior management.

The human resources department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and the remuneration packages.

CORPORATE GOVERNANCE REPORT

The remuneration of the Directors has been determined with reference to their respective qualification, experience, duties and responsibilities in the Company as well as the Group's results and performance for the financial year concerned. The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management for the year under review.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in Respect of Consolidated Financial Statements

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2020.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and the assets of the Company and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and a formal internal audit department was set up in 2019 to report to the Audit Committee on any findings and measures to address the variances and identified risks.

CORPORATE GOVERNANCE REPORT

In 2019, the Board engaged an external professional firm to review its internal control systems and suggest necessary changes. At the same time, the Group established internal audit department to manage, implement and monitor internal control process. In 2020, the Board approved and internally announced Corporate Governance Manual and a complaint mailbox to further strengthen the internal control system and minimize the occurrence of wrongdoings and misconduct. The Board has conducted a review of the effectiveness of the internal control system of the Group and was satisfied with the result.

AUDIT COMMITTEE

As at 31 December 2020, the Audit Committee comprised three members, namely Mr. Tse Chi Wai (Chairman), Prof. Zhu Nanwen and Prof. Li Jun, all of them are independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include the following:

- (a) to review the consolidated financial statements and reports and consider any significant or unusual items raised by staff responsible for the accounting and financial reporting function or external auditor before submission to the Board;
- (b) to review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor;
- (c) to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures; and
- (d) to monitor the corporate governance of the Group including compliance with statutory and Listing Rules requirement.

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2019; and the interim results for the period ended 30 June 2020, the financial reporting and compliance procedures, risk management review and processes and the re-appointment of the external auditor.

There is no different view taken by the Audit Committee regarding the selection, appointment and resignation of the external auditor.

The Audit Committee held 2 meetings during the year ended 31 December 2020 and the attendance records are set out under "Directors' Attendance Records" on page 23

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 38 to 43.

During the year ended 31 December 2020, the remuneration paid to the Company's auditor, ZHONGHUI ANDA CPA Limited is set out below:

Category of services	Fee paid/payable
Audit service	HK\$1,380,000
Non audit services	HK\$ —
Total	HK\$1,380,000

COMPANY SECRETARY

The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with shareholders and with management. During the year, the Company Secretary had taken the necessary professional training.

BOARD MEETINGS

Board Practices and Conduct of Meetings

Annual meeting schedules and notice and draft agenda of each meeting are normally made available to Directors and committee members in advance.

Board papers together with all appropriate information is sent to all Directors/committee members well before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management, Financial Controller or Company Secretary attended some regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary/secretary of the committees is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

CORPORATE GOVERNANCE REPORT

The Company's Articles of Association contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. Independent non-executive Directors who, and whose associates, have no material interest in the transaction should be present at the Board meeting.

Directors' Attendance Records

During the year ended 31 December 2020, four regular Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Code provision A.1.1 stipulates that regular Board meetings should be held at least four times a year at approximately quarterly intervals. There were twenty six Board meetings held during the year under review, two of which was regular meeting held for approving the final results for the year ended 31 December 2019 and interim results for the period ended 30 June 2020. The other Board meetings were held as and when the business and operational needs arose.

The attendance records of each Director at the meetings of shareholders, the Board, Audit Committee, Remuneration Committee and Nomination Committee during the year ended 31 December 2020 are set out below:

Name of Directors	Attendance/Number of Meetings				
	General Meeting	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors:					
Mr. Xu Jingping (appointed on 23 December 2020)	0/1	2/26	—	—	0/1
Mr. Yang Baodong	1/1	26/26	—	—	—
Ms Hu Yueyue	0/1	26/26	—	—	—
Non-Executive Directors:					
Mr. Xu Zhongping (re-designed from executive Director and Chairman to non-executive Director on 23 December 2020)	1/1	24/26	—	—	—
Mr. Ma Tianfu	0/1	20/26	—	—	—
Independent Non-Executive Directors:					
Mr. Tse Chi Wai	1/1	26/26	2/2	1/1	1/1
Prof. Zhu Nanwen	0/1	23/26	2/2	1/1	1/1
Prof. Li Jun	0/1	13/26	1/2	1/1	1/1

CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its code of conduct regarding Directors’ securities transactions.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2020.

The Company has also established written guidelines of no less exacting terms than the Model Code (the “**Employees Written Guidelines**”) for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

DELEGATION BY THE BOARD

The Board takes responsibility for all major matters of the Company including the setting of objectives and overall strategies, the approval and monitoring of all policy matters, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company’s expense, upon obtaining approval from the Board.

The Board delegates day-to-day management, administration and operation of the Company to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management. The Board has the full support of the senior management to discharge its responsibilities.

The Board has established three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company’s affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company’s website (www.cethl.com) and the website of the Stock Exchange of Hong Kong Limited (www.HKEX.com.hk) and are available to shareholders upon request.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2020 are set out in note 15 to the consolidated financial statements.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The general meetings of the Company provide an important channel for communication between the Board and the shareholders. The Chairman of the Board as well as chairman of the Audit Committee, Remuneration Committee and Nomination Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, normally attend the annual general meeting and other relevant shareholders' meetings to answer questions at the shareholders' meetings.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. As a channel to promote effective communication, the Company maintains a website at www.cethl.com, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong or via facsimile at (852) 2511-1878 for any inquiries.

SHAREHOLDERS' RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholders' meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the website of the Company and Hong Kong Exchanges and Clearing Limited after the shareholders' meeting.

CORPORATE GOVERNANCE REPORT

PROCEDURES FOR SHAREHOLDERS TO PROPOSE/MOVE A RESOLUTION AT GENERAL MEETINGS

There are no provisions allowing shareholders of the Company to make proposals or move resolutions at a general meeting under the Company's constitution or the laws of the Cayman Islands. Shareholders who wish to make proposals or move a resolution may, however, convene an extraordinary general meeting by the following procedures below.

Procedures for Shareholders to Propose Convening Extraordinary General Meetings

Extraordinary General Meetings shall also 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 Directors or the Secretary for the purpose of requiring an Extraordinary General Meeting to be called by the Directors 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 Directors fail to proceed to convene such meeting, the requisitioner(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Directors shall be reimbursed to the requisitioner(s) by the Company.

Procedures for Shareholders to Propose a Person for Election as a Director

Pursuant to Article 113 of the Articles of Association of the Company, a notice in writing of the intention to propose a person for election as a Director and a notice in writing by that person of his willingness to be elected shall be lodged at the Head Office or at the Registration Office of the Company.

These notices shall be lodged during a period commencing no earlier than the day after the despatch of the notice of the general meeting appointed for such election and ending no later than seven days prior to the date of such meeting, provided that such period shall be at least seven days subject to and to such extent permitted by and in accordance with the laws and the Listing Rules.

The Company can also accept the said notice earlier than the day after the despatch of the notice of the meeting appointed for such election of Director(s).

CODE PROVISION A.1.8: APPROPRIATE INSURANCE COVER IN RESPECT OF LEGAL ACTION AGAINST DIRECTORS SHOULD BE ARRANGED

Currently, the Company does not have insurance cover for legal action against its Directors. The Board believes that with the current risk management and internal control systems and the close supervision of the management, the Directors' risk of being sued or getting involved in litigation in their capacity as Directors is relatively low. Benefits to be derived from taking out insurance may not outweigh the cost. Despite it, every Director is, subject to the provisions of the applicable laws, indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities he/she may sustain or incur in or about the execution of his/her office or otherwise in relation thereto pursuant to the Articles of Association of the Company. In view of the above, the Board considers that the Directors' exposure to risk is manageable.

REPORT OF THE DIRECTORS

The Directors submit herewith their annual report together with the audited consolidated financial statements for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The Group's principal business are 1) environmental protection related business, including trading of machinery and equipment, environmental protection technology, equipment system integration, cities and towns wastewater treatment and environmental project technical services, and 2) healthcare related products and services, in the fields of major immune cell diagnosis and treatment, biological cell technology research, chronic disease management and protein recombinant vaccines. The details activities and other particulars of the subsidiaries are set out in note 36 to the consolidated financial statements.

The Company is a company incorporated in the Cayman Islands and has its principal place of business at Unit 903, New Tech Plaza, 34 Tai Yau Street, San Po Kong, Kowloon, Hong Kong.

An analysis of the Group's performance for the year by operating segment is set out in note 10 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales attributable to the major customers during the financial year is as follows:

	Percentage of the Group's total Sales
The largest customer	15.35%
Five largest customers in aggregate	61.10%

Percentage of the Group's total Purchases	Percentage of the Group's total Purchases
The largest supplier	33.80%
Five largest suppliers in aggregate	63.89%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 44 and 45.

The Directors do not recommend payment of any dividend for the year ended 31 December 2020 (2019: Nil).

REPORT OF THE DIRECTORS

TRANSFER TO RESERVES

Loss attributable to owners of the Company, before dividends, of approximately HK\$68,051,000 (2019: approximately HK\$260,883,000) have been transferred to reserves. Other movements in reserves of the Company are set out in note 30 to the consolidated financial statements.

At 31 December 2020, none of distribution reserves are available to owners of the Company.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. Xu Jingping (*Chairman*) (*appointed on 23 December 2020*)

Mr. Yang Baodong

Ms. Hu Yueyue

NON-EXECUTIVE DIRECTORS

Mr. Xu Zhongping (*re-designed from executive Director and Chairman to non-executive Director on 23 December 2020*)

Mr. Ma Tianfu

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tse Chi Wai

Prof. Zhu Nanwen

Prof. Li Jun

Mr. Xu Jingping will retire from the office as an executive Director at the forthcoming annual general meeting of the Company in accordance with Article 111 of the Articles of Association of the Company.

Ms. Hu Yueyue will retire from the office as executive Director at the forthcoming annual general meeting of the Company in accordance with Article 108(B) of the Articles of Association of the Company.

Mr. Xu Zhongping will retire from the office as a non-executive Director at the forthcoming annual general meeting of the Company in accordance with Article 108(B) of the Articles of Association of the Company. Prof. Zhu Nan Wen will retire from the office as an independent non-executive Director at the forthcoming annual general meeting of the Company. All retiring Directors, being eligible will offer themselves for re-election.

REPORT OF THE DIRECTORS

All Directors (including non-executive and independent non-executive Directors) of the Company are subject to the general provisions in respect of the retirement and rotation of Directors at the annual general meeting pursuant to the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

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

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

The Directors and chief executive who held office at 31 December 2020 had the following interests in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of Directors' and chief executives' interests required to be kept under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

LONG POSITIONS

(i) *Interests in issued shares of the Company*

Name of Director	Capacity	No. of ordinary shares interested	% of the Company's issued share capital
Mr. Xu Zhongping	Interest held by a controlled corporation	1,014,500,000	27.79%
	<i>(note)</i>		
	Beneficial owner	44,098,431	1.21%
		1,058,598,431	29.00%
Mr. Yang Baodong	Beneficial owner	792,000	0.02%
Ms. Hu Yueyue	Beneficial owner	8,000,000	0.22%

Note:

These 1,014,500,000 shares were held under the name of Gentle International Holdings Limited ("**Gentle**"). Classy Jade Limited owns 60% of the issued share capital of Gentle. Mr. Xu Zhong Ping is the sole shareholder of Classy Jade Limited. Mr. Xu was therefore deemed to be interested in the said 1,014,500,000 shares held by Gentle under Part XV of the SFO.

REPORT OF THE DIRECTORS

(ii) Interests in underlying shares of the Company

Name of Director	Capacity	No. of share option held	% of the Company's issued share capital
Mr. Xu Zhongping	Beneficial owner	36,480,000	1.00%
Mr. Yang Baodong	Beneficial owner	36,480,000	1.00%
Mr. Ma Tianfu	Beneficial owner	10,560,000	0.29%

Apart from the foregoing, as at 31 December 2020, none of the Directors, the chief executive or any of their spouses or children under eighteen years of age has interests in the shares, underlying shares and debentures of the Company, or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

SHARE OPTIONS

2002 SHARE OPTION SCHEME

The Company's 2002 Share Option Scheme was adopted on 28 March 2002 and was terminated by a resolution passed by shareholders on 10 September 2010.

2010 SHARE OPTION SCHEME

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), adopted a share option scheme (the "2010 Share Option Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 10 September 2010. The Directors are given a general mandate to invite eligible participants to take up options at the subscription price as prescribed under the 2010 Share Option Scheme to subscribe for shares of the Company. The purpose of the share option scheme is to enable the Group to grant options to the eligible participants including employees, executive and non-executive Directors, suppliers and customers and shareholders of any members of the Group and any persons or entities that provided research, development or other technical support to the Group or any other group or classes of participants determined by the Directors as incentive or rewards for their contribution to the Group. The share option scheme has become valid and effective for a period of ten years ending on 9 September 2020.

REPORT OF THE DIRECTORS

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of offer. Each option gives the holder the right to subscribe for one ordinary share in the Company.

The total number of securities available for issue under the share option scheme as at 31 December 2020 was 223,200,000 shares which represents 6.10% of the issued share capital of the Company as at 31 December 2020. Among all the Options granted, 151,360,000 Options are vested from the Date of Grant and 71,840,000 Options are vested in two equal installments with the first and second installments to be vested in one and two years from the Date of Grant, respectively. The Options are exercisable after the vesting date but within a period of ten years from the Date of Grant. The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

Offer of an option shall have been accepted when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance of HK\$1 is received within such time as may be specified in the offer, which shall not be later than 21 days from the date of offer. The share option scheme had expired on 9 September 2020.

The details of share options granted by the Company under the 2010 Shares Option Scheme up to 31 December 2020 are set out in note 32 to the consolidated financial statements.

REPORT OF THE DIRECTORS

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

Name or category of participant	Number of share options					At 31 December 2020	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$ per share
	At 1 January 2020	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year				
Directors, chief executive and a substantial shareholder and their associates									
Mr. Xu Zhongping	–	18,240,000	–	–	–	18,240,000	11 May 2020	11.5.2020 to 10.5.2030	0.025
	–	9,120,000	–	–	–	9,120,000	11 May 2020	11.5.2021 to 10.5.2030	0.025
	–	9,120,000	–	–	–	9,120,000	11 May 2020	11.5.2022 to 10.5.2030	0.025
	–	36,480,000	–	–	–	36,480,000			
Mr. Yang Baodong	–	18,240,000	–	–	–	18,240,000	11 May 2020	11.5.2020 to 10.5.2030	0.025
	–	9,120,000	–	–	–	9,120,000	11 May 2020	11.5.2021 to 10.5.2030	0.025
	–	9,120,000	–	–	–	9,120,000	11 May 2020	11.5.2022 to 10.5.2030	0.025
	–	36,480,000	–	–	–	36,480,000			
Mr. Ma Tianfu	–	5,280,000	–	–	–	5,280,000	11 May 2020	11.5.2020 to 10.5.2030	0.025
	–	2,640,000	–	–	–	2,640,000	11 May 2020	11.5.2021 to 10.5.2030	0.025
	–	2,640,000	–	–	–	2,640,000	11 May 2020	11.5.2022 to 10.5.2030	0.025
	–	10,560,000	–	–	–	10,560,000			
Other employees									
In aggregate	–	12,960,000	–	–	–	12,960,000	11 May 2020	11.5.2020 to 10.5.2030	0.025
	–	13,120,000	–	–	–	13,120,000	11 May 2020	11.5.2021 to 10.5.2030	0.025
	–	13,120,000	–	–	–	13,120,000	11 May 2020	11.5.2022 to 10.5.2030	0.025
	–	39,200,000	–	–	–	39,200,000			
Suppliers of goods or services									
In aggregate	–	96,640,000	–	–	–	96,640,000	11 May 2020	11.5.2020 to 10.5.2030	0.025
	–	1,920,000	–	–	–	1,920,000	11 May 2020	11.5.2021 to 10.5.2030	0.025
	–	1,920,000	–	–	–	1,920,000	11 May 2020	11.5.2022 to 10.5.2030	0.025
	–	100,480,000	–	–	–	100,480,000			
Total	–	223,200,000	–	–	–	223,200,000			

REPORT OF THE DIRECTORS

The Directors have estimated the values of the share options granted during the year, calculated using binomial option pricing model as at the date of grant of the options:

Grantee	Number of options granted during the year	Theoretical value of share options HK\$
Mr. Xu Zhongping	36,480,000	423,337
Mr. Yang Baodong	36,480,000	423,337
Mr. Ma Tianfu	10,560,000	122,545
Other employees	39,200,000	408,292
Suppliers of goods or services	100,480,000	969,063
	223,200,000	2,346,574

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

As at 31 December 2020, the Company had 223,200,000 share options outstanding under the 2010 Share Option Scheme. Should they be fully exercised, the Company will receive HK\$5,580,000 (before issue expenses). The fair value of these unexercised options measured in accordance with the Group's accounting policy (note 4 to the consolidated financial statements) amounted to HK\$2,346,574.

Save as disclosed above, at no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

EQUITY LINKED AGREEMENTS

Save as disclosed above in the section headed "Share Options", no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2020.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2020, the following persons, other than a Director or chief executive of the Company, had interest or short positions in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

Capacity	No. of ordinary shares of the Company interested	% of the Company's issued shares capital	
Gentle International Holdings Limited ("Gentle")	Beneficial owner	1,014,500,000	27.79
Classy Jade Limited	Interest of a controlled corporation (<i>Note</i>)	1,014,500,000	27.79
Mr. Xu Zhong Ping	Interest of a controlled corporation (<i>Note</i>)	1,014,500,000	27.79

Note: Classy Jade Limited owns 60% of the issued share capital of Gentle. Mr. Xu Zhong Ping is the sole shareholder of Classy Jade Limited and was therefore deemed to be interested in the said 1,014,500,000 shares held by Gentle under Part XV of the SFO.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2020, so far as is known to the Directors, no person (other than the Directors whose interests are set out in the section headed “Directors’ and Chief Executive’s Interests in Shares and Underlying Shares” above) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS’ INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, or any of its holding companies or subsidiaries was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS INTERESTS IN COMPETING BUSINESS

None of the Directors or their respective associates has any interests in a business which competes or may compete with the business of the Group.

SHARES ISSUED DURING THE YEAR

Details of the movements in share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

DEBENTURES DURING THE YEAR

Reference is made to the announcement of the Company dated 21 September 2015. Terms used hereinafter shall have the same meaning as defined in the above announcement.

EMOLUMENT POLICY

As at 31 December 2020, the Group had 70 employees (2019: 62 employees). The remuneration policy and packages are reviewed annually by the management and the Remuneration Committee. The Group remunerates its employees based on their performance, work experience and the prevailing market rate. The remuneration packages include basic salary, double pay, commission, insurance and mandatory provident fund. The Group operates a share option scheme for the purpose of providing incentives and rewards to (among others) eligible Directors and employees of the Group to recognise their contribution to the result of the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the years ended 31 December 2020 and 2019.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company’s Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and other borrowings of the Group as at 31 December 2020 are set out in notes 26 and 27 to the consolidated financial statements.

REPORT OF THE DIRECTORS

CONTINGENT LIABILITIES

As at 31 December 2020, the Company has no any contingent liabilities.

FIVE YEAR 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 pages 117-118 of the annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board of Directors and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with the laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and wates reduction.

RETIREMENT SCHEMES

As from 1 December 2000, the Group operates a mandatory provident fund scheme (the “**MPF Scheme**”), managed by an independent approved MPF trustee, under the requirements of the Mandatory Provident Fund Schemes Ordinance (Cap. 485, Laws of Hong Kong) for employees employed under the jurisdiction of the Employment Ordinance (Cap. 57, Laws of Hong Kong).

The MPF Scheme is a defined contribution retirement scheme. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employee’s relevant income, subject to a cap of monthly relevant income of HK\$30,000.

The employees in the Group’s PRC subsidiaries are members of the state-managed retirement schemes. The PRC subsidiaries are required to contribute a specified percentage of their payroll to these schemes. The only obligation of the Group with respect to these retirement schemes is to make the specified contributions.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) for the benefit of the Directors of the Company is currently in force and was in force throughout the financial year ended 31 December 2020.

REPORT OF THE DIRECTORS

EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are set out in note 35 to the consolidated financial statements.

BUSINESS REVIEW

OVERVIEW

The business review of the Group as at 31 December 2020 is set out under the section headed “Chairman’s Statement” and “Management Discussion and Analysis” of this annual report on pages 3 to 8.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group’s financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group’s businesses. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

MARKET RISK

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

LIQUIDITY RISK

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group’s operations and reduce the effects of fluctuation in cash flows.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. The management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

REPORT OF THE DIRECTORS

CONFIRMATION OF INDEPENDENCE

The Company received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this annual report.

AUDITOR

RSM Hong Kong (formerly known as RSM Nelson Wheeler) (“**RSM**”) was appointed as auditors of the Company on 27 August 2014 to fill the vacancy following the resignation of Crowe Horwath (HK) CPA Limited.

RSM resigned as auditors of the Company with effect from 6 December 2016 and ZHONGHUI ANDA CPA Limited (“**ZHONGHUI**”) was appointed as auditors of the Company on 6 January 2017 to fill the vacancy following the resignation of RSM.

The consolidated financial statements of the Group for the year ended 31 December 2020, 2019 and 2018 have been audited by ZHONGHUI ANDA CPA Limited who will retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of ZHONGHUI as auditor of the Company is to be proposed at the forthcoming general meeting.

Save as disclosed above, there were no other changes in the Company’s auditors in any of the preceding six years.

By order of the Board

Mr. Xu Jingping

Chairman

Hong Kong, 31 March 2021

INDEPENDENT AUDITOR'S REPORT



To The Shareholders Of China Environmental Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of China Environmental Technology Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 44 to 116, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, 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 (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

1. Deconsolidation of Pacific Fertility Institutes Holding Company Limited ("PFI Cayman") and its subsidiaries (the "PFI Cayman Group")

As explained in note 2 to the consolidated financial statements for the year ended 31 December 2018, certain subsidiaries of the Group were deconsolidated from the Group since 1 January 2018. No sufficient evidence has been provided to satisfy ourselves, in relation to the deconsolidated subsidiaries, as to the completeness of the transactions of the Group for the year ended 31 December 2019.

2. Limited accounting books and records of Pacific Fertility Institutes (Singapore) Pte Ltd. ("PFI Singapore")

As explained in note 2 to the consolidated financial statements for the year ended 31 December 2019, PFI Singapore was deconsolidated from the Group since 22 February 2019. No sufficient evidence has been provided to satisfy ourselves, in relation to the deconsolidated subsidiary, as to the completeness of the transactions of the Group for the period from 1 January 2019 to 22 February 2019, and as to the accuracy of the gain on deconsolidation of the subsidiary of approximately HK\$27,564,000 for the year ended 31 December 2019.

INDEPENDENT AUDITOR'S REPORT

3. Onerous contract and provision for claims against cessation lease contract

During the year ended 31 December 2019, the Group has undergone an early cessation arrangement for the Group's 20-year long term non-cancellable lease contract (the "Lease Contract") (the "Cessation") with the lessor. We have not been provided with sufficient audit evidence on how the consequential accounting treatments of the Lease Contract would affect the consolidated profit or loss for the year ended 31 December 2019, including the net gain on the Cessation of approximately HK\$13,112,000 for the year ended 31 December 2019.

Any adjustments to the figures as described from points 1 to 3 above might have consequential effects on the consolidated financial performance and consolidated cash flows for the year ended 31 December 2019 and the related disclosures thereof in the consolidated financial statements.

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 qualified opinion.

MATERIAL UNCERTAINTY RELATED TO THE GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which states that the Group incurred loss attributable to owners of the Company of approximately HK\$68,051,000 for the year ended 31 December 2020 and as at 31 December 2020 the Group had net current liabilities and net liabilities of approximately HK\$461,297,000 and approximately HK\$537,681,000 respectively. These conditions indicate a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matters described in the Basis for Qualified Opinion section and the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

INDEPENDENT AUDITOR'S REPORT

CONTRACT COSTS

Refer to Note 23 to the consolidated financial statements

The Group tested the amount of contract costs for impairment. This impairment test is significant to our audit because the balance of contract costs of HK\$26,696,000 as at 31 December 2020 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

- Assessing the Group's procedures on ordering and holding of contract costs;
- Evaluating the Group's impairment assessment;
- Assessing the budget cost of contract costs;
- Assessing the ageing of the contract costs; and
- Assessing the net realisable values of the contract costs.

We consider that the Group's impairment test for contract costs is supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

TRADE AND OTHER RECEIVABLES AND CONTRACT ASSETS

Refer to Note 22 and Note 23 to the consolidated financial statements

The Group tested the amount of trade and other receivables and contract assets for impairment. This impairment test is significant to our audit because the balance of trade and other receivables and contract assets of approximately HK\$36,861,000 and approximately HK\$6,212,000 respectively, as at 31 December 2020 are material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

- Assessing the Group's procedures on granting credit limits and credit periods to customers and debtors;
- Assessing the Group's relationship and transaction history with the customers and debtors;
- Evaluating the Group's impairment assessment;
- Assessing ageing of the debts;
- Assessing credit worthiness of the customers and debtors;
- Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements; and
- Testing subsequent settlement of receivables after the end of the reporting period on a sample basis.

We consider that the Group's impairment test for trade and other receivables and contract assets is supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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. We report our opinion 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.

INDEPENDENT AUDITOR'S REPORT

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/>

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Pang Hon Chung

Audit Engagement Director

Practising Certificate Number P05988

Hong Kong, 31 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	7	53,500	33,787
Cost of sales		(36,122)	(28,886)
Gross profit		17,378	4,901
Other income	8	1,426	3,921
Other gains, net	9	242	13,186
Distribution costs		(1,774)	(1,432)
Net gain on disposal/deconsolidation of subsidiaries	11	8,957	2,142
Impairment/write off of various assets	14	(3,202)	(10,095)
Provision for claims against cessation of lease contract		—	(180,713)
Administrative expenses		(58,674)	(50,496)
Loss from operations		(35,647)	(218,586)
Finance costs	12	(32,516)	(44,488)
Loss before tax	14	(68,163)	(263,074)
Income tax credit	13	—	634
Loss for the year		(68,163)	(262,440)
Other comprehensive (expenses)/income for the year, net of tax:			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of financial statements of foreign operations		898	5,374
Exchange differences reclassified to profit or loss on disposal of subsidiaries		(6,888)	(1,220)
Exchange differences reclassified to profit or loss on deconsolidation of subsidiaries		—	41
		(5,990)	4,195
Total comprehensive expenses for the year		(74,153)	(258,245)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Loss for the year attributable to:			
Owners of the Company		(68,051)	(260,883)
Non-controlling interests		(112)	(1,557)
		(68,163)	(262,440)
Total comprehensive expenses for the year attributable to:			
Owners of the Company		(74,252)	(256,696)
Non-controlling interests		99	(1,549)
		(74,153)	(258,245)
Loss per share			
	17		
– Basic (HK cent per share)		(1.86)	(7.15)
		(1.86)	(7.15)
– Diluted (HK cent per share)		(1.86)	(7.15)
		(1.86)	(7.15)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property, plant and equipment	18	1,038	1,514
Right-of-use assets	19	2,514	7,169
Intangible assets	20	1,055	1,071
Interest in an associate	21	—	—
		4,607	9,754
Current assets			
Trade and other receivables	22	36,861	27,312
Contract assets and contract costs	23	32,908	30,963
Bank and cash balances	24	1,194	3,351
		70,963	61,626
Current liabilities			
Trade and other payables	25	371,799	309,636
Contract liabilities	23	15,940	21,820
Borrowings	26	77,203	60,260
Convertible bonds	27	64,910	—
Lease liabilities	28	2,408	4,869
		532,260	396,585
Net current liabilities		(461,297)	(334,959)
Total assets less current liabilities		(456,690)	(325,205)
Non-current liabilities			
Trade and other payables	25	19,933	23,568
Borrowings	26	61,058	61,058
Convertible bonds	27	—	53,200
Lease liabilities	28	—	2,194
		80,991	140,020
NET LIABILITIES		(537,681)	(465,225)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Capital and reserves			
Share capital	29	91,259	91,259
Reserves	31	(632,788)	(560,454)
<hr/>			
Equity attributable to owners of the Company		(541,529)	(469,195)
Non-controlling interests		3,848	3,970
<hr/>			
TOTAL DEFICIT		(537,681)	(465,225)

The consolidated financial statements on pages 44 to 116 were approved and authorised for issue by the Board of Directors on 31 March 2021 and are signed on its behalf by:

Mr. Xu Jingping
Director

Mr. Yang Baodong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Foreign currency translation reserve HK\$'000	Share-based payment reserve HK\$'000	Other reserve HK\$'000	Convertible bonds reserve HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Deficit equity HK\$'000
At 1 January 2019	91,259	370,411	(180)	6,190	–	7,442	15,350	(700,711)	(210,239)	2,531	(207,708)
Loss for the year	–	–	–	–	–	–	–	(260,883)	(260,883)	(1,557)	(262,440)
Other comprehensive income/(expenses) for the year:											
– Exchange differences on translation of foreign operations	–	–	–	5,366	–	–	–	–	5,366	8	5,374
– Exchange differences reclassified to profit or loss on disposal of subsidiaries	–	–	–	(1,220)	–	–	–	–	(1,220)	–	(1,220)
– Exchange differences reclassified to profit or loss on deconsolidated of subsidiaries	–	–	–	41	–	–	–	–	41	–	41
Total comprehensive income/(expenses) for the year	–	–	–	4,187	–	–	–	(260,883)	(256,696)	(1,549)	(258,245)
Capital injection to a non-wholly owned subsidiary by the Group	–	–	–	–	–	–	–	(2,260)	(2,260)	2,260	–
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	728	728
At 31 December 2019	91,259	370,411	(180)	10,377	–	7,442	15,350	(963,854)	(469,195)	3,970	(465,225)
At 1 January 2020	91,259	370,411	(180)	10,377	–	7,442	15,350	(963,854)	(469,195)	3,970	(465,225)
Loss for the year	–	–	–	–	–	–	–	(68,051)	(68,051)	(112)	(68,163)
Other comprehensive (expenses)/income for the year:											
– Exchange differences on translation of foreign operations	–	–	–	687	–	–	–	–	687	211	898
– Exchange differences reclassified to profit or loss on disposal of subsidiaries	–	–	–	(6,888)	–	–	–	–	(6,888)	–	(6,888)
Total comprehensive (expenses)/income for the year	–	–	–	(6,201)	–	–	–	(68,051)	(74,252)	99	(74,153)
Liquidation of a subsidiary	–	–	–	–	–	–	–	–	–	(4)	(4)
Equity-settled share-based payments	–	–	–	–	1,918	–	–	–	1,918	–	1,918
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	(217)	(217)
At 31 December 2020	91,259	370,411	(180)	4,176	1,918	7,442	15,350	(1,031,905)	(541,529)	3,848	(537,681)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(68,163)	(263,074)
Adjustments for:		
Depreciation of property, plant and equipment and right-of-use assets	5,031	11,164
Amortisation of intangible assets	77	78
Net gain on deconsolidation of subsidiaries	(8,957)	(2,142)
Net gain on the early cessation arrangement for the lease contract	—	(13,112)
Provision for claims against cessation of lease contract	—	180,713
Impairment on right-of-use assets	—	8,162
Impairment loss on trade receivables	3,054	366
Impairment loss on amount due from an associate	148	159
Write-off of other receivables	—	1,408
Reversal of impairment loss on trade receivables	—	(2)
Bad debts recovered from other receivables	—	(72)
Interest expenses	32,516	44,488
Interest income	(3)	(26)
Net loss on disposal of property, plant and equipment	417	6
Waiver of trade and other payables	(401)	(306)
Equity-settled share-based payments	1,918	—
Exchange difference	11,448	(3,157)
Operating cash flows before working capital changes	(22,915)	(35,347)
Change in inventories	—	559
Change in contract assets and contract costs	(32)	(11,727)
Change in trade and other receivables	(8,894)	(6,007)
Change in contract liabilities	(6,837)	8,008
Change in trade and other payables	24,937	20,076
Net cash used in operating activities	(13,741)	(24,438)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for purchase of property, plant and equipment	(218)	(30)
Payment for purchase of construction in progress	—	(2,817)
Proceeds from disposal of property, plant and equipment	112	—
Net cash outflow for disposal of subsidiaries	(1)	(94)
Net cash outflow for deconsolidation of subsidiaries	—	(1,604)
Interest income received	3	26
Change in restricted and pledged bank deposits	—	343
Net cash used in investing activities	(104)	(4,176)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from new bank loans	9,643	1,812
Proceeds from new other loans	5,938	74,258
Repayment of bank loans	(1,812)	(4,538)
Repayment of other loans	—	(13,200)
Repayment of bonds	—	(15,750)
Repayment of lease liabilities and interest	(1,120)	(10,892)
Interest paid	(3,546)	(8,819)
Net cash generated from financing activities	9,103	22,871
Net decrease in cash and cash equivalents	(4,742)	(5,743)
Effect of change in foreign exchange rate	2,585	4,113
Cash and cash equivalents at beginning of year	3,351	4,981
Cash and cash equivalents at end of year	1,194	3,351
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	1,194	3,351

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

China Environmental Technology Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands on 31 August 2001 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office and principal place of business of the Company are located at P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands and Unit 901, New Tech Plaza, 34 Tai Yau Street, San Po Kong, Kowloon, Hong Kong respectively.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are described in note 36 to the consolidated financial statements.

At 31 December 2020, the directors of the Company (the “Directors”) consider the immediate parent of the Company to be Gentle International Holdings Limited, which is incorporated in the British Virgin Islands; and the ultimate parent of the Company to be Classy Jade Limited, which is incorporated in the Republic of Seychelles and controlled by Mr. Xu Zhongping, the non-executive Director of the Company. The immediate and ultimate parent company do not produce consolidated financial statements available for public use.

2. BASIS OF PREPARATION

Going Concern

The Group incurred loss attributable to owners of the Company of approximately HK\$68,051,000 for the year ended 31 December 2020 and the Group had net current liabilities and net liabilities of approximately HK\$461,297,000 and approximately HK\$537,681,000 respectively as at 31 December 2020. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have been undertaking a number of plans and measures to improve the Group’s liquidity and financial position, including:

- (i) the Directors have reviewed the Group’s cash flow projection prepared by management, which covered a period of not less than twelve months from 31 December 2020. In the opinion of the Directors, the Group will have sufficient working capital to meet its financial obligations as and when they fall due and carry on its business without a significant curtailment of operations not less than twelve months from 31 December 2020. Accordingly, the consolidated financial statements have been prepared on a going concern basis;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. BASIS OF PREPARATION (Continued)

Going Concern (Continued)

- (ii) there was an investor (“Investor”) confirmed to provide an adequate financial support of amount not less than HK\$100,000,000 (including the amounts for which loan agreements had been entered by the date of the letter of support) to the Group as it is necessary to ensure its continuing operation for a period of at least fifteen months from 31 March 2021 (the “Relevant Period”);

The Investor also confirms that during the Relevant Period, when the Company is required to make any payment to the holder of the 8% 3-year convertible bond due 2020 in aggregate principal amount of US\$7,000,000 issued by and convertible into ordinary shares of the Company (“CB1”) according to the terms of CB1, the Investor would fund the Company to enable the Company to make such payment at the time and in the amount specified in the relevant terms of CB1;

The Company accepted a loan agreement from the Investor, in which a term loan facility in the principal sum of up to RMB50,000,000 (approximately HK\$59,382,000), commencing from 25 January 2021 and ending on 31 January 2024. Interest will be charged at 15% per annum, all interest payments related to such loan shall be paid on 31 January 2022, 31 January 2023, and upon repayment date, if such date is not business day, the next business day.

- (iii) the Investor executed a letter agreeing not to demand for repayment for other loan principal of HK\$800,000 and the accrued interest of approximately HK\$186,000 as at 31 December 2020 before July 2022 under an loan agreement executed on 27 March 2019, and all interests accrued from this other loan are to be repaid on the maturity date under the loan agreement, which is on 30 September 2022 or if such date is not a business day, the next business day;

The Investor also agreeing not to demand for repayment for other loan principal of approximately HK\$17,058,000 and the accrued interest of approximately HK\$2,607,000 as at 31 December 2020 before July 2022 under another loan agreement executed on 23 September 2019, and all interests accrued from this other loan are to be repaid on the repayment date under the loan agreement, which is on 31 December 2022 or if such date is not a business day, the next business day;

The Investor also agreeing not to demand for repayment for working capital of approximately RMB1,290,000 (approximately HK\$1,532,000) lent to the Group by certain companies controlled by the Investor and approximately HK\$1,160,000 lent to the Group by the Investor before July 2022;

- (iv) China Daisy Finance Limited (“China Daisy”) executed a letter agreeing not to demand for repayment for other loan principal of HK\$40,000,000 and the accrued interest of approximately HK\$11,234,000 as at 31 December 2020 before July 2022 under an loan agreement executed on 27 March 2019, and all interests accrued from this other loan are to be repaid on the repayment date under the loan agreement, which is on 27 September 2022 or if such date is not a business day, the next business day;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. BASIS OF PREPARATION (Continued)

Going Concern (Continued)

- (v) the Directors will consider to carry out debt and group restructuring for the Company's certain subsidiaries in capital deficiencies to release the certain level of liabilities when necessary; and
- (vi) the Group shall implement cost-saving measures to maintain adequate cash flows for the Group's operations.

Based on the cash flow projection of the Group and having taken into account the available financial resources of the Group and the above measures, the Directors consider that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future, and accordingly, are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the consolidated financial statements, are further disclosed in note 5 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive expenses for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, investments at fair value through profit or loss), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation

a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

b) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

c) *Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in consolidated profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Machinery	5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	3–5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in consolidated profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Land and buildings	2 years
Motor vehicles	2 years

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to consolidated profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in consolidated profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US\$5,000.

Intangible assets

a) Patent

Purchased patent which has a finite useful life is stated at cost less accumulated amortisation and any accumulated impairment losses. The cost of patent acquired in a business combination is its fair value as at the date of acquisition. Amortisation is calculated on a straight-line basis over the remaining useful life of approximately 8 years from the date of acquisition to 16 October 2018.

b) Club membership

Club membership which has a finite useful life is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line over its useful life of 23 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified at financial assets at amortised cost.

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost and contract assets. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument (“lifetime expected credit losses”) for trade receivables and contract assets, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables and contract assets) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible loans

Convertible loans which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The fair value of any derivative features embedded in the compound instruments is included in the liability component. The difference between the proceeds of issue of the convertible loans and the fair values assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as capital reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative components are measured at fair value with gains and losses recognised in profit or loss.

If the identifiable consideration received by the Group appears to be less than the fair value of the convertible loans issued, the Group measures the unidentifiable services received (to be received) as the difference between the fair value of the convertible loans issued and that of the identifiable consideration received, and the difference is recognised in profit or loss.

Transaction costs are apportioned between the liability and equity components of the convertible loans based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

Borrowing

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Other financial liabilities

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other revenue

Interest income is recognised using the effective interest method.

Employee benefits

a) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

b) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

c) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

Share-based payments

The Group issues equity-settled share-based payments to certain Directors, employees and consultants.

Equity-settled share-based payments to Directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are 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, until such time as 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 eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A related party is a person or entity that is related to the Group.

- (A) A person or a close member of that person's family is related to the Group if 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 Company or of a parent of the Company.
- (B) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities 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, the sponsoring employers are also related to the Group;
 - (vi) The entity is controlled or jointly controlled by a person identified in (A);
 - (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in consolidated profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

Going concern basis

These consolidated financial statements have been prepared on a going concern basis. Details are explained in note 2 to the consolidated financial statements.

Key sources of 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.

a) *Impairment loss for bad and doubtful debts*

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables and contract assets, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and contract assets and doubtful debt expenses in the year in which such estimate has been changed.

b) *Income taxes*

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. 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 that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

c) *Allowance for contract costs*

Allowance for contract costs is made based on the ageing and estimated net realisable value of contract costs. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of contract costs and allowance charge/write-back in the period in which such estimate has been changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities.

The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

b) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2020 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade and other receivables, restricted and pledged bank deposits, and bank and cash balances. In order to minimise credit risk, the Directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the Directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. The credit risk on bank and cash balances and restricted and pledged bank deposits are limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. FINANCIAL RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

- internal credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a customer failing to engage in a repayment plan with the Group. The Group normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Group uses two categories for non-trade loan receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

Category	Definition	Loss provision
Performing	Low risk of default and strong capacity to pay	12 month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	Total contractual undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 31 December 2020					
Trade and other payables	358,853	19,933	—	378,786	378,633
Other loans	6,829	77,102	—	83,931	66,996
Bonds	7,490	—	—	7,490	7,000
Entrusted loan	61,301	—	—	61,301	54,621
Bank loans	9,671	—	—	9,671	9,644
Convertible bonds	65,532	—	—	65,532	64,910
	509,676	97,035	—	606,711	581,804
	More than Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	Total 2 years but less than 5 years HK\$'000	Total contractual undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 31 December 2019					
Trade and other payables	298,312	23,568	—	321,880	321,880
Other loans	—	—	85,292	85,292	61,058
Bonds	7,490	—	—	7,490	7,000
Entrusted loan	57,707	—	—	57,707	51,448
Bank loan	1,812	—	—	1,812	1,812
Convertible bonds	4,368	65,532	—	69,900	53,200
	369,689	89,100	85,292	544,081	496,398

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. FINANCIAL RISK MANAGEMENT (Continued)

d) Interest rate risk

The Group's exposure to fair value interest rate risk arises primarily from the Group's interest-bearing borrowings and convertible bonds which carry interest at fixed rates.

The Group has no significant interest-bearing assets and liabilities at floating rate. The Group's operating cash flows are substantially independent of changes in market interest rates.

e) Categories of financial instruments at 31 December

	2020 HK\$'000	2019 HK\$'000
Financial assets:		
Financial assets at amortised cost (including cash and cash equivalents)	35,755	29,233
Financial liabilities:		
Financial liabilities at amortised cost	581,804	496,398

f) Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. REVENUE

The Group's revenue is as follows:

	2020 HK\$'000	2019 HK\$'000
Trading of wastewater treatment facilities and machineries and the provision for related services	360	664
Sales of goods	53,140	33,123
	53,500	33,787

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

8. OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Interest income on bank deposits	3	26
Net foreign exchange gain	—	3,157
Waiver of trade and other payables	401	306
Compensation received	780	—
Others	242	432
	1,426	3,921

9. OTHER GAINS, NET

	2020 HK\$'000	2019 HK\$'000
Net gain on the early cessation arrangement for the lease contract	—	13,112
Reversal of impairment loss on trade receivables	—	2
Bad debts recovered from other receivables	—	72
Reversal of impairment loss on obsolete inventory	242	—
	242	13,186

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. SEGMENT INFORMATION

The Group manages its business by divisions which are organised from the products/services perspective.

Operating segments are identified on the basis of internal reports which provide information about components of the Group. These information are reported to and reviewed by the executive Directors, being the chief operating decision-maker (“CODM”) for the purposes of resources allocation and performance assessment. The Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments:

i. Wastewater treatment

This segment engages in the provision of wastewater treatment plants construction and operation services, as well as the trading of wastewater treatment facilities and machineries and the provision for related services.

ii. Healthcare

This segment engages in the provision of healthcare services.

For the purposes of assessing segment performance and allocating resources between segments, the Group’s CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

The accounting policies of the reportable segments follow the Group’s accounting policies. Segment loss represents the loss from each segment without allocation of central administration costs such as Directors’ salaries and unallocated other income/losses. This is the measure reported to the CODM for purposes of resources allocation and performance assessment. Taxation credit is not allocated to reportable segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation and amortisation of assets attributable to those segments.

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

All assets are allocated to reportable segments other than unallocated cash and cash equivalents and corporate assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

All liabilities are allocated to reportable segments other than current and deferred tax liabilities, borrowings not attributable to individual segments and corporate liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. SEGMENT INFORMATION (Continued)

(a) Disaggregation of revenue from contracts with customers:

Disaggregation of revenue from contracts with customers by major products or service and geographical location of customers is as follows:

	2020 HK\$'000	2019 HK\$'000
Disaggregated by major products or service		
— Wastewater treatment	53,500	33,787
Revenue from contracts with customers	53,500	33,787
Disaggregated by geographical location of customers		
— The PRC (except for Hong Kong)	53,500	33,787

All products are recognised at a point in time.

Wastewater treatment

Revenue from wastewater treatment includes construction and operation services and equipment trading.

Wastewater treatment services are normally made with credit terms of 30 days. A receivable is recognised when the services are rendered to the customers as this is the over time that the consideration is unconditional because only the passage of time is required before the payment is due.

For construction services and trading of wastewater treatment facilities and machineries and the provision for related services to the customers, the customers pay the contract prices to the Group according to the payment schedules as stipulated in the contracts. Sales are recognised when the acceptance is passed. If the service rendered by the Group exceeds the payments, a contract asset is recognised. If the payments exceed the service rendered, a contract liability is recognised.

The contract price is allocated to the performance obligations based on the relative stand-alone selling prices of the performance obligations. The stand-alone selling prices are determined by applying the expected cost plus a margin approach.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. SEGMENT INFORMATION (Continued)

(a) Disaggregation of revenue from contracts with customers: (Continued)

Healthcare

Revenue from healthcare is recognised when the services are rendered.

Healthcare services are normally made with credit terms of 30 days. A receivable is recognised when the services are provide to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Information about reportable segment profit or loss, assets and liabilities:

	Wastewater treatment HK\$'000	Healthcare HK\$'000	Subtotal HK\$'000	Unallocated HK\$'000	Total HK\$'000
For the year ended 31 December 2020					
Revenue from external customers	53,500	—	53,500	—	53,500
Segment loss	(13,199)	(42,713)	(55,912)	(12,251)	(68,163)
Interest income	1	2	3	—	3
Finance costs	7,220	—	7,220	25,296	32,516
Depreciation of property, plant and equipment and right-of-use assets, and amortisation	3,071	47	3,118	1,990	5,108
Impairment loss on trade receivables	3,054	—	3,054	—	3,054
Impairment loss on amount due from an associate	148	—	148	—	148
Additions to property, plant and equipment and construction in progress	218	—	218	—	218
As at 31 December 2020					
Reportable segment assets	72,600	1,159	73,759	1,811	75,570
Reportable segment liabilities	175,935	206,786	382,721	230,530	613,251

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. SEGMENT INFORMATION (Continued)

(b) Information about reportable segment profit or loss, assets and liabilities: (Continued)

	Wastewater treatment HK\$'000	Healthcare HK\$'000	Subtotal HK\$'000	Unallocated HK\$'000	Total HK\$'000
For the year ended 31 December 2019					
Revenue from customers	35,067	—	35,067	—	35,067
Intersegment revenue	(1,280)	—	(1,280)	—	(1,280)
Revenue from external customers	33,787	—	33,787	—	33,787
Segment loss	(16,612)	(201,308)	(217,920)	(45,154)	(263,074)
Interest income	23	2	25	1	26
Finance costs	7,012	19,398	26,410	18,078	44,488
Depreciation of property, plant and equipment and right-of-use assets, and amortisation	1,661	7,757	9,418	1,824	11,242
Impairment loss on trade receivables	366	—	366	—	366
Reversal of impairment loss on trade receivables	2	—	2	—	2
Write-off of other receivables	641	255	896	512	1,408
Bad debts recovered from other receivables	—	72	72	—	72
Impairment loss on amount due from an associate	159	—	159	—	159
Impairment loss on right-of-use assets	—	8,162	8,162	—	8,162
Additions to property, plant and equipment and construction in progress	30	4,213	4,243	—	4,243
As at 31 December 2019					
Reportable segment assets	65,844	929	66,773	4,607	71,380
Reportable segment liabilities	167,512	226,786	394,298	142,307	536,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. SEGMENT INFORMATION (Continued)

(c) Reconciliations of reportable segment profit or loss:

	2020 HK\$'000	2019 HK\$'000
Total loss of reportable segments	(55,912)	(217,920)
Unallocated depreciation of property, plant and equipment, right-of-use assets, and amortisation	(1,990)	(1,824)
Unallocated head office and corporate expenses	(10,261)	(43,330)
Consolidated loss before tax	<u>(68,163)</u>	<u>(263,074)</u>

(d) Reconciliations of reportable segment assets and liabilities:

	2020 HK\$'000	2019 HK\$'000
Assets		
Total assets of reportable segments	73,759	66,773
Unallocated		
– cash and cash equivalents	446	789
– corporate assets	1,365	3,818
Consolidated total assets	<u>75,570</u>	<u>71,380</u>
Liabilities		
Total liabilities of reportable segments	382,721	394,298
Unallocated		
– corporate liabilities	230,530	142,307
Consolidated total liabilities	<u>613,251</u>	<u>536,605</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. SEGMENT INFORMATION (Continued)

(e) Geographical information

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below. The geographical location of customers refers to the location at which the services were provided or the goods delivered. The geographical location of property, plant and equipment is based on the physical location of the asset under consideration. In the case of the intangible assets and goodwill, it is based on the location of the operation to which they are allocated.

	Revenue from external customers		Non-current assets	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	—	—	167	2,156
The PRC (except for Hong Kong)	53,500	33,787	4,440	7,598
	53,500	33,787	4,607	9,754

(f) Revenue from major customers

Revenue from customers contributing 10% or more of the total revenue of the Group are as follows:

	2020	2019
	HK\$'000	HK\$'000
Wastewater treatment		
Customer A	8,126	—
Customer B	7,200	—
Customer C	5,830	—
Customer D	6,712	6,302
Customer E	—	4,401
Customer F	—	9,785
Customer G	—	8,214
Customer H	—	3,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. NET GAIN ON DECONSOLIDATION OF SUBSIDIARIES

The net gain on deconsolidation of subsidiaries consisted of:

		2020 HK\$'000	2019 HK\$'000
Gain on liquidation of a subsidiary		—	27,564
(Loss)/gain on disposal of subsidiaries	<i>Note a</i>	8,957	(25,422)
		8,957	2,142

Note a: On 17 December 2020, the Group disposed 100% of the issued share capital of Fanhe (Beijing) Water Investment Co., Ltd (“Fanhe (Beijing)”), a 100% owned subsidiary of the Group, at a consideration of RMB 2 (equivalent HK\$2).

Net liabilities at the date of disposal were as follows	HK\$'000
Trade and other receivables	317
Cash and bank balances	1
Trade and other payables	(2,387)
Net liabilities disposal of	(2,069)
Release of foreign currency translation reserve	(6,888)
	(8,957)
Gain on disposal of Fanhe (Beijing)	8,957
Consideration	—
Net cash outflow arising on disposal:	
Cash consideration received	—
Cash and cash equivalents disposed of	(1)
	(1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

12. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Lease interests	424	15,116
Interest expenses on:		
– Bank loans	188	47
– Entrusted loan	6,320	6,901
– Other loans	9,016	5,335
– Bonds	490	1,204
– Convertible bonds	16,078	11,455
Default interest on construction contracts	–	4,430
Total borrowing costs	32,516	44,488

13. INCOME TAX CREDIT

Income tax has been recognised in consolidated profit or loss as following:

	2020 HK\$'000	2019 HK\$'000
Current tax — Corporate Income Tax in the PRC		
Over-provision in prior years	–	634
Income tax credit	–	634

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits arising in Hong Kong for the years ended 31 December 2020 and 2019.

Beijing Jingrui Kemai Water Purification Technology Company Limited, a wholly-owned subsidiary of the Company enjoys high-tech enterprise income tax benefit from 2018 to 2020 and the tax rate is 15%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

13. INCOME TAX CREDIT (Continued)

The reconciliation between the income tax credit and the product of loss before tax multiplied by the applicable tax rates is as follows:

	2020 HK\$'000	2019 HK\$'000
Loss before tax	(68,163)	(263,074)
Notional tax on loss before tax, calculated at the rates applicable to losses in the tax jurisdictions concerned	(12,328)	(47,361)
Tax effect of		
– non-deductible expenses	21,596	43,167
– non-taxable income	(9,398)	(6,115)
– tax losses not recognised	—	9,031
– utilisation of previously unrecognised tax losses	(48)	(467)
– temporary differences not recognised	178	1,745
– over-provision in prior years	—	(634)
Income tax credit	—	(634)

As at 31 December 2020, subject to agreement by tax authority, the Group had estimated tax losses of approximately HK\$145,856,000 (2019: approximately HK\$145,856,000) in Hong Kong which are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available for the companies in which the losses arose. The tax losses do not expire under the current Hong Kong tax legislation. Tax losses of approximately HK\$101,293,000 (2019: approximately HK\$105,912,000) in the PRC are available for offsetting against future profits that may be carried forward for five years for PRC enterprise income tax purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. LOSS BEFORE TAX

The Group's loss before tax is stated after charging the following:

	2020 HK\$'000	2019 HK\$'000
Amortisation of intangible assets	77	78
Cost of inventories sold	—	559
Staff costs (including Directors' emoluments)		
— Salaries, wages and other benefits	12,936	13,956
— Pension costs-defined contribution plans	817	1,599
	13,753	15,555
Impairment loss on right-of-use assets	—	8,162
Impairment loss on trade receivables	3,054	366
Write-off of other receivables	—	1,408
Impairment loss on amount due from an associate	148	159
	3,202	10,095
Depreciation of property, plant and equipment and right-of-use assets	5,031	11,164
Net loss on disposal of property, plant and equipment	429	6
Auditor's remuneration	1,380	1,380
Legal and professional fee	7,067	14,184
Loss on foreign exchange difference	11,448	—
Share-based payment	1,918	—
Expenses related to short-term leases	762	1,423

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. BENEFITS AND INTERESTS OF DIRECTORS AND EMPLOYEES

(a) Directors' emoluments

The remuneration of each Director is as follows:

	Year ended 31 December 2020			
	Emoluments paid or receivable in respect of a person's services as a Director whether of the Company or its subsidiary undertaking			
	Directors' fees	Salaries	Retirement scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive Directors				
Mr. Xu Zhongping (note (a))	—	1,181	11	1,192
Mr. Yang Baodong (note (b))	—	1,358	37	1,395
Ms. Hu Yueyue	—	1,200	18	1,218
	—	3,739	66	3,805
Non-executive Directors				
Mr. Xu Zhongping (note (a))	—	30	—	30
Mr. Ma Tianfu	240	—	—	240
	240	30	—	270
Independent non-executive Directors				
Mr. Tse Chi Wai	120	—	—	120
Prof. Zhu Nanwen	120	—	—	120
Prof. Li Jun	120	—	—	120
	360	—	—	360
	600	3,769	66	4,435

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. BENEFITS AND INTERESTS OF DIRECTORS AND EMPLOYEES (Continued)

(a) Directors' emoluments (Continued)

	Year ended 31 December 2019			
	Emoluments paid or receivable in respect of a person's services as a Director whether of the Company or its subsidiary undertaking			
	Directors' fees	Salaries	Retirement scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive Directors				
Mr. Xu Zhongping (note (a))	—	1,200	32	1,232
Mr. Yang Baodong (note (b))	—	679	18	697
Ms. Hu Yueyue	—	1,200	18	1,218
	—	3,079	68	3,147
Non-executive Directors				
Mr. Xu Xiao Yang (note (c))	—	—	—	—
Mr. Ma Tianfu	240	—	—	240
	240	—	—	240
Independent non-executive Directors				
Mr. Tse Chi Wai	120	—	—	120
Prof. Zhu Nanwen	120	—	—	120
Prof. Li Jun	120	—	—	120
	360	—	—	360
	600	3,079	68	3,747

Notes:

- (a) Redesignated from executive Director to non-executive Director on 23 December 2020
- (b) Appointed on 28 June 2019
- (c) Removed from the office of chief executive officer and re-designated from an executive Director to non-executive Director on 17 January 2019, and retired on 28 June 2019

There was no arrangement under which a Director waived or agreed to waive any emoluments during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. BENEFITS AND INTERESTS OF DIRECTORS AND EMPLOYEES (Continued)

(b) Directors' material interests in transactions, arrangements or contracts

As at 31 December 2020, Mr. Xu Zhongping is entrusted as registered shareholder of an investment in a subsidiary on behalf of the Group. Saved as disclosed, there were no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director of the Company and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(c) Five highest paid individuals

The five highest paid individuals in the Group during the year included three (2019: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2019: two) individual are set out below:

	2020 HK\$'000	2019 HK\$'000
Salaries and other emoluments	1,277	1,523
Retirement scheme contributions	30	59
	1,307	1,582

The emoluments fell within the following band:

	Number of individuals	
	2020	2019
HK\$Nil – HK\$1,000,000	2	2

During the year, no emoluments were paid by the Group to any of the Directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. DIVIDENDS

The Board of Directors does not recommend the payment of any dividend for the year ended 31 December 2020 (2019: HK\$Nil).

17. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following:

	2020 HK\$'000	2019 HK\$'000
Loss		
Loss for the year for the purpose of calculating basic and diluted loss per share	(68,051)	(260,883)
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	3,650,359	3,650,359

The basic and diluted loss per share for the years ended 31 December 2020 and 2019 were the same as the Company had no dilutive potential ordinary shares in issue during the years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. PROPERTY, PLANT AND EQUIPMENT

	Machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost				
At 1 January 2019	4,196	2,739	3,468	10,403
Exchange adjustments	(74)	(26)	(52)	(152)
Additions	–	30	–	30
Disposal of subsidiaries	–	(82)	–	(82)
Disposals	–	(39)	(82)	(121)
At 31 December 2019 and 1 January 2020	4,122	2,622	3,334	10,078
Exchange adjustments	65	85	177	327
Additions	172	46	–	218
Disposals	(3,493)	(18)	(6)	(3,517)
At 31 December 2020	866	2,735	3,505	7,106
Accumulated depreciation and impairment losses				
At 1 January 2019	2,414	2,369	3,220	8,003
Exchange adjustments	(53)	(20)	(48)	(121)
Charge for the year	727	92	31	850
Disposal of subsidiaries	–	(53)	–	(53)
Disposals	–	(37)	(78)	(115)
At 31 December 2019 and 1 January 2020	3,088	2,351	3,125	8,564
Exchange adjustments	29	70	166	265
Charge for the year	131	72	24	227
Disposals	(2,966)	(17)	(5)	(2,988)
At 31 December 2020	282	2,476	3,310	6,068
Carrying amount				
At 31 December 2020	584	259	195	1,038
At 31 December 2019	1,034	271	209	1,514

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2020 HK\$'000	2019 HK\$'000
At 31 December:		
Right-of-use assets		
– Land and buildings	810	3,837
– Motor vehicles	1,704	3,332
	2,514	7,169
Lease commitments of short-term leases	223	181
The maturity analysis based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
– Less than 1 year	2,624	5,064
– Between 1 and 2 years	–	2,229
	2,624	7,293

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. LEASES AND RIGHT-OF-USE ASSETS (Continued)

	2020 HK\$'000	2019 HK\$'000
Year ended 31 December:		
Depreciation charge of right-of-use assets		
– Land and buildings	3,070	10,007
– Motor vehicles	1,734	307
	4,804	10,314
Lease interests	424	15,116
Expenses related to short-term leases	762	1,423
Total cash outflow for leases	1,882	12,315
Additions to right-of-use assets	—	9,786

The Group leases various land and buildings and motor vehicles. Lease agreements are typically made for fixed periods of 2 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

20. INTANGIBLE ASSETS

	Club memberships HK\$'000	Patent HK\$'000	Total HK\$'000
	(Note)		
Cost			
At 1 January 2019	1,769	58,600	60,369
Exchange adjustments	(31)	(1,036)	(1,067)
At 31 December 2019 and 1 January 2020	1,738	57,564	59,302
Exchange adjustments	107	3,551	3,658
At 31 December 2020	1,845	61,115	62,960
Accumulated amortisation and impairment losses			
At 1 January 2019	600	58,600	59,200
Exchange adjustments	(11)	(1,036)	(1,047)
Amortisation charge	78	—	78
At 31 December 2019 and 1 January 2020	667	57,564	58,231
Exchange adjustments	46	3,551	3,597
Amortisation charge	77	—	77
At 31 December 2020	790	61,115	61,905
Carrying amount			
At 31 December 2020	1,055	—	1,055
At 31 December 2019	1,071	—	1,071

Note:

The Group holds a membership right in Sand River Golf Club with a useful life of 23 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

21. INTERESTS IN AN ASSOCIATE

	2020 HK\$'000	2019 HK\$'000
Share of net assets	—	—

The particulars of the associate of the Group, which is unlisted, as at 31 December 2020, are as follows:

Name of associate	Particulars of paid up registered capital	Proportion of ownership interest indirectly held by the Company		Principal activity
		2020	2019	
Beijing CETH Asset Management Co., Ltd ("Beijing CETH Asset Management") 北京中環科資本管理有限公司	RMB1,000,000	49%	49%	Asset management

The Group has discontinued the recognition of its share of loss of the associate because the share of loss of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this associate for the current year and cumulatively were approximately HK\$12,000 (2019: approximately HK\$83,000) and approximately HK\$358,000 (2019: approximately HK\$346,000), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. TRADE AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	27,627	21,996
Bills receivable	8,456	1,812
Less: allowance for doubtful debts	(7,852)	(4,356)
	28,231	19,452
Other receivables	7,030	5,762
Prepayments and deposits	1,600	2,098
	36,861	27,312

Trade receivables are due in accordance with contract terms.

The Group's bills receivable of approximately HK\$8,456,000 (2019:HK\$1,812,000) were pledged to secure bank borrowings of approximately HK\$8,456,000 (2019:HK\$1,812,000).

As at 31 December 2020 and 2019, the ageing analysis of the trade and bills receivable, based on the invoice date and bills receipt date respectively, and net of allowance were as follows:

	2020 HK\$'000	2019 HK\$'000
Within 3 months	15,528	6,168
More than 3 months but within 12 months	3,003	3,386
More than 12 months	9,700	9,898
	28,231	19,452

As at 31 December 2020, trade receivables of the Group amounting to approximately HK\$7,852,000 (2019: approximately HK\$4,356,000) were individually determined to be impaired. The individually impaired receivables were outstanding for more than 12 months at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. TRADE AND OTHER RECEIVABLES (Continued)

Movements in the allowance for doubtful debts

	2020 HK\$'000	2019 HK\$'000
At 1 January	4,356	4,898
Allowance for the year	3,054	366
Reverse of allowance for the year	—	(2)
Write off trade receivables	—	(817)
Deconsolidation of a subsidiary	—	(21)
Exchange adjustments	442	(68)
At 31 December	7,852	4,356

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade and bills receivables. To measure the expected credit losses, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current	Up to 3 months past due	3 to 12 months past due	Over 12 months past due	Total
At 31 December 2020					
Weighted average expected loss rate	—	—	—	45%	
Receivable amount (HK\$'000)	13,696	1,832	3,003	17,552	36,083
Loss allowance (HK\$'000)	—	—	—	(7,852)	(7,852)
At 31 December 2019					
Weighted average expected loss rate	—	—	—	31%	
Receivable amount (HK\$'000)	4,176	1,992	3,386	14,254	23,808
Loss allowance (HK\$'000)	—	—	—	(4,356)	(4,356)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

23. CONTRACT ASSETS, COSTS AND LIABILITIES

Disclosures of revenue-related items:

	As at 31 December 2020 HK\$'000	As at 31 December 2019 HK\$'000	As at 1 January 2019 HK\$'000
Total contract assets	6,212	2,641	4,608
Total contract costs	26,696	28,322	
Total contract assets and contract costs	32,908	30,963	
Total contract liabilities	15,940	21,820	14,060
Contract receivables (included in trade and bills receivables)	19,775	17,640	15,881
Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognised as revenue in:			
– 2020		–	47,363
– 2021		28,079	–
		28,079	47,363
Year ended 31 December		2020 HK\$'000	2019 HK\$'000
Revenue recognised in the year that was included in contract liabilities at beginning of year		14,695	9,130

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

23. CONTRACT ASSETS, COSTS AND LIABILITIES (Continued)

Significant changes in contract assets and contract liabilities during the year:

	2020 Contract assets HK\$'000	2020 Contract liabilities HK\$'000	2019 Contract assets HK\$'000	2019 Contract liabilities HK\$'000
Increase due to operations in the year	4,355	9,768	2,227	18,102
Transfer of contract assets to receivables	(1,131)	—	(4,112)	—
Transfer of contract liabilities to revenue	—	(16,605)	—	(10,094)

A contract asset represents the Group's right to consideration in exchange for products or services that the Group has transferred to a customer.

A contract liability represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

24. BANK AND CASH BALANCES

	2020 HK\$'000	2019 HK\$'000
Cash and bank balances	1,194	3,351

At 31 December 2020, the bank deposits and cash and bank balances of the PRC's subsidiaries denominated in RMB amounted to approximately HK\$679,000 (2019: approximately HK\$2,460,000). The RMB is not freely convertible into other currencies. However, under the PRC'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

25. TRADE AND OTHER PAYABLES

	Notes	2020 HK\$'000	2019 HK\$'000
Trade payables		46,602	36,064
Other payables	(i)	321,506	284,805
Other tax payable		13,099	11,324
Amounts due to directors		4,587	1,011
Loan borrowed from director	(ii)	5,938	—
		391,732	333,204
Analysed as:			
Current liabilities		371,799	309,636
Non-current liabilities		19,933	23,568
		391,732	333,204

Note:

- (i) As at 31 December 2020 other payables included rent payable of approximately HK\$10,419,000, non-contractual loan of approximately HK\$42,005,000, amounts due to the Investor and companies controlled by the Investor of approximately HK\$17,894,000, interest payables of approximately HK\$26,861,000, and legal and professional fee payables of approximately HK\$10,170,000.

As at 31 December 2019, other payables included rent payable of approximately HK\$8,382,000, non-contractual loan of approximately HK\$39,564,000, amounts due to the Investor and companies controlled by the Investor of approximately HK\$19,394,000, interest payables of approximately HK\$9,838,000, and legal and professional fee payables of approximately HK\$5,309,000.

As at 18 November 2019, the Group has undergone an early cessation arrangement for a lease contract with the lessor, who is entitled to bring legal actions against a subsidiary of the Company for the early cessation claims. The Directors estimated that a provision for claims in relation to the early cessation on arrangement after deducted the rental deposits would be approximately HK\$187,706,000 (2019:HK\$176,798,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

25. TRADE AND OTHER PAYABLES (Continued)

Note: (Continued)

- (ii) As at 31 December 2020, the loan borrowed from a director of approximately HK\$5,938,000 (2019: nil) carried a fixed interest rate of 4.469% per annum, which is secured by a subsidiary of the Company and the properties owned by a company controlled by the Investor.

The ageing analysis of the trade payables based on the date of receipt of goods/services, is as follows:

	2020 HK\$'000	2019 HK\$'000
Within 1 month	11,477	4,833
After 1 month but within 3 months	5,877	2,913
After 3 months but within 4 months	912	489
After 4 months but within 1 year	5,349	13,416
After 1 year	22,987	14,413
	46,602	36,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

26. BORROWINGS

The analysis of the carrying amount of borrowings is as follows:

	2020 HK\$'000	2019 HK\$'000
Bank loans (note (a))	9,644	1,812
Entrusted loan (note (b))	54,621	51,448
Other loans (note (c))	66,996	61,058
Bonds (note (d))	7,000	7,000
Total borrowings	138,261	121,318

The borrowings are repayable as follows:

Within one year	77,203	60,260
In the second to third years, inclusive	61,058	—
In the third to fifth years, inclusive	—	61,058
	138,261	121,318
Less: Amount due for settlement within 12 months (shown under current liabilities)	(77,203)	(60,260)
Amount due for settlement after 12 months	61,058	61,058

The carrying amounts of all borrowings are denominated in Renminbi (“RMB”), except the bonds and other loans are denominated in Hong Kong Dollar (“HK\$”).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

26. BORROWINGS (Continued)

Notes:

- (a) The bank loans are secured by the Group's bills receivable. The effective discount interest rate on the Group's bills receivable of approximately HK\$8,456,000 (2019: HK\$1,812,000) is from 2.5% to 3.1% per annum for the year ended 31 December 2020.

The bank loan of approximately HK\$1,188,000 are secured by the patent of a subsidiary of the Company, properties owned by a company controlled by the Investor and personal guarantees by an executive Director of the Company, and the effective discount interest rate on the bank loan is 4.24% per annum for the year ended 31 December 2020.

- (b) On 19 March 2013, Shenzhen CETH Environmental Technology Co., Ltd., a wholly-owned subsidiary of the Company, entered into an entrusted loan agreement with an independent third party through commissioning a bank to borrow a loan of RMB50,000,000 for a period of three years from 23 April 2013 to 22 April 2016, and extended one year to 21 April 2017 when expired. The loan is secured by a guarantee from the Company. On 26 March 2019, the lender has decided to extend the repayment of this entrusted loan, for which, RMB25,000,000 of the entrusted loan shall be repaid on or before 31 December 2019 while the other RMB25,000,000 to be repaid on or before 31 December 2020. The effective interest rate of the entrusted loan (which also equals contractual interest rate) was 12% (2019: 12%) per annum. During the year ended 31 December 2020, the Group had repaid approximately RMB4,000,000. Approximately RMB46,000,000 of the entrusted loan was overdue as at 31 December 2020 (2019: RMB21,000,000). Up to the date of these consolidated financial statements, the Group is undergoing active and positive negotiation with the lender to renew the repayment schedule.
- (c) As at 31 December 2020, other loans of HK\$3,200,000 is interest-free, approximately HK\$5,938,000 arranged at a fixed interest rate of 15% and the remaining arranged at a fixed interest rate of 12% per annum, and all loans are repaid in full upon the maturity, of which the other loan of HK\$40,000,000 was charged a additional fixed default interest rate of 5% per annum. Other loans of HK\$40,000,000, HK\$3,200,000, HK\$800,000, approximately HK\$17,058,000 and approximately HK\$5,938,000 are matured on 27 September 2022, 8 January 2022, 30 September 2022, 31 December 2022 and 30 September 2025, respectively of which the other loan of approximately HK\$5,938,000 matured on 30 September 2025 has a repayable on demand clause. All other loans are unsecured, except for approximately HK\$5,938,000 is secured by the Company.
- (d) As at 31 December 2020, the Group have issued two (2019: two) unlisted straight bonds to two (2019: two) independent investors in an aggregate principal amount of HK\$7,000,000 (2019: HK\$7,000,000) (the "Bonds"). The Bonds are unsecured, arranged at a fixed interest rate of 7% per annum and redeemed in full upon the maturity, i.e. three or four years from the date of issue. All outstanding bonds are overdue as at 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

27. CONVERTIBLE BONDS

On 16 January 2018, the Company issued the convertible bonds in an aggregate principal amount of US\$7,000,000 (equivalent to approximately HK\$54,600,000) with a coupon rate of 8% to the independent third party. The convertible bonds will mature from the date of issue to 15 January 2021 representing maturity period of 3 years, and can be converted into a maximum of 265,048,544 conversion shares of the Company at the conversion price of HK\$0.206 per conversion shares upon full exercise of the conversion rights within the period of the 12 months after the issue date of the bonds up to the maturity date.

The convertible bonds recognised in the consolidated statement of financial position had been split between liability element and equity component, and are calculated as follows:

	Liabilities component	Equity component	Total
	HK\$'000	HK\$'000	HK\$'000
At 31 December 2018	46,113	15,350	61,463
Imputed interest expenses	11,455	—	11,455
Less: coupon payable	(4,368)	—	(4,368)
At 31 December 2019	53,200	15,350	68,550
Imputed interest expenses	16,078	—	16,078
Less: coupon payable	(4,368)	—	(4,368)
At 31 December 2020	64,910	15,350	80,260

The interest charged for the year is calculated by applying an effective interest 23.33% to the liability component for the period since the bonds were issued.

The Directors estimate the fair value of the equity and liability components of the convertible bonds at the issuance date with reference to the independent valuation performed by an independent valuer, CHFT Advisory And Appraisal Limited under level 2 fair value measurement.

The payment obligations and the performance of all of the obligations of the Company under the convertible bonds are secured by the share charge, being 588,000,000 Company's shares pledged by the immediate parent of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

28. LEASE LIABILITIES

	Lease payments 2020 HK\$'000	Present value of lease payments 2020 HK\$'000	Lease payments 2019 HK\$'000	Present value of lease payments 2019 HK\$'000
Within one year	2,624	2,408	5,064	4,869
In the second to fifth years, inclusive	—	—	2,229	2,194
	2,624	2,408	7,293	7,063
Less: Future finance charges	(216)		(230)	
Present value of lease liabilities	2,408		7,063	
Less: Amount due for settlement within 12 months (shown under current liabilities)		(2,408)		(4,869)
Amount due for settlement after 12 months		—		2,194

At 31 December 2020, the effective borrowing rate was from 3.125% - 4.75%. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

29. SHARE CAPITAL

	Number of ordinary shares of HK\$0.025 per share '000	HK\$'000
Authorised		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	8,000,000	200,000
Issued and fully paid		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	3,650,359	91,259

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

30. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	2020 HK\$'000	2019 HK\$'000
Non-current assets		
Property, plant and equipment	—	—
Right-of-use assets	167	2,156
Investments in and loans to subsidiaries	—	—
	167	2,156
Current assets		
Other receivables and deposits	823	1,663
Cash and cash equivalents	109	191
	932	1,854
Current liabilities		
Other payables	22,512	12,517
Amounts due to directors	4,587	1,011
Amounts due to subsidiaries	43,332	43,332
Lease liabilities	171	2,016
Borrowings	7,000	7,000
Convertible bonds	64,910	—
	142,512	65,876
Net current liabilities	(141,580)	(64,022)
Total assets less current liabilities	(141,413)	(61,866)
Non-current liabilities		
Other payables	15,189	5,334
Lease liabilities	—	171
Borrowings	61,058	61,058
Convertible bonds	—	53,200
	76,247	119,763
NET LIABILITIES	(217,660)	(181,629)
Capital and reserves		
Share capital	91,259	91,259
Reserves	(308,919)	(272,888)
TOTAL DEFICIT	(217,660)	(181,629)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

30. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(b) Reserve movement of the Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Share-based payment reverse HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2019	370,411	59,063	—	(637,607)	(208,133)
Loss for the year	—	—	—	(64,755)	(64,755)
At 31 December 2019 and 1 January 2020	370,411	59,063	—	(702,362)	(272,888)
Equity-settled share-based payments	—	—	1,918	—	1,918
Loss for the year	—	—	—	(37,949)	(37,949)
At 31 December 2020	370,411	59,063	1,918	(740,311)	(308,919)

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and prior period are presented in the consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) *Share premium and contributed surplus*

Under the Companies Law (Revised) of the Cayman Islands, the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

The contributed surplus of the Company arose from the difference between the consolidated net assets of the Group's subsidiaries acquired and the nominal value of the Company's ordinary shares issued pursuant to the Group reorganisation in 2002.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

31. RESERVES (Continued)

(b) Nature and purpose of reserves (Continued)

(ii) *Foreign currency transaction reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4.

(iii) *Other reserves*

The other reserves mainly comprise the statutory reserve of subsidiaries in the PRC. Subsidiaries of the Group in the PRC follow the accounting principles and relevant financial regulations of the PRC, in the preparation of their accounting records and financial statements. Pursuant to the accounting regulations for business enterprises, the subsidiaries are required to appropriate 10% of the profit arrived at for each year to statutory reserve. The profit arrived at must be used initially to set off against any accumulated losses. The appropriations to statutory reserve, after offsetting against any accumulated losses, must be made before the distribution of dividends to owners. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends, but may be used to set off losses or be converted into paid-in capital.

(iv) *Convertible bond reserve*

The convertible bonds reserve represents the value of the unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policies adopted for convertible bonds in note 4 to the consolidated financial statements.

(v) *Share-based payment reserve*

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees and consultants of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

32. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include Directors, employees and consultants of the Company and its subsidiaries. The Scheme became effective on 10 September 2010, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of shares in respect of which options may be granted at any time under the Scheme together with options which may be granted under any other share option schemes for the time being of the Group shall not exceed such number of shares as equals 10% of the issued share capital of the Company at the date of approval of the Scheme. Any further grant of shares options in excess of this limit is subject to shareholders’ approval in a general meeting. Unless approved by the Company’s shareholders, the total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue.

Each grant of options to any of the Directors, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved by the independent non-executive Directors (excluding the independent non-executive Director who is the proposed grantee of the option (if any)). Where any grant of options to a substantial shareholder of the Company or an independent non-executive director, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the shares in issue; and
- (ii) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5 million

such further grant of options must be approved by shareholders of the Company.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by each grantee. An option may be exercised at any time during the period to be determined and identified by the Board to each grantee at the time of making an offer for the grant of an option, but in any event no later than 10 years from the date of grant but subject to the early termination of the Scheme.

Share options do not confer rights on the holder to dividends or to vote at shareholders’ meetings. Share options do not confer rights on the holder to dividends or to vote at shareholders’ meetings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

32. SHARE-BASED PAYMENTS (Continued)

The following share options were outstanding under the Scheme during the year:

Grantee	Date of grant	Exercisable period	Exercise price	Outstanding at 1 January 2020	Granted during the year	Outstanding at 31 December 2020
Directors	11 May 2020	From 11 May 2020 to 10 May 2030	HK\$0.025	—	41,760,000	41,760,000
Directors	11 May 2020	From 11 May 2021 to 10 May 2030	HK\$0.025	—	20,880,000	20,880,000
Directors	11 May 2020	From 11 May 2022 to 10 May 2030	HK\$0.025	—	20,880,000	20,880,000
Employees	11 May 2020	From 11 May 2020 to 10 May 2030	HK\$0.025	—	12,960,000	12,960,000
Employees	11 May 2020	From 11 May 2021 to 10 May 2030	HK\$0.025	—	13,120,000	13,120,000
Employees	11 May 2020	From 11 May 2022 to 10 May 2030	HK\$0.025	—	13,120,000	13,120,000
Consultants	11 May 2020	From 11 May 2020 to 10 May 2030	HK\$0.025	—	96,640,000	96,640,000
Consultants	11 May 2020	From 11 May 2021 to 10 May 2030	HK\$0.025	—	1,920,000	1,920,000
Consultants	11 May 2020	From 11 May 2022 to 10 May 2030	HK\$0.025	—	1,920,000	1,920,000
					223,200,000	223,200,000
Exercisable at end of the year						151,360,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

32. SHARE-BASED PAYMENTS (Continued)

The Company has used the Binomial Option Pricing Model to assess the fair value of the share options granted under the Scheme and such fair value was HK\$2,346,574. The Company has recognised as expense in the amount of approximately HK\$1,918,000 for the year ended 31 December 2020.

The inputs into the model are as follows:

Closing share price at date of grant	HK\$0.017
Exercise price	HK\$0.025
Risk free rate	0.502%
Expected volatility	99.645%
Expected dividend yield	0.000%

The fair value of the options will be amortised over the vesting period and expensed in the consolidated profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Convertible bonds HK\$'000	Borrowings HK\$'000	Lease liabilities HK\$'000	Total liabilities from financing activities HK\$'000
At 1 January 2019	46,113	79,678	—	125,791
Changes in cash flows	—	42,582	(10,892)	31,690
Non-cash changes				
— disposal of subsidiaries	—	—	(7,985)	(7,985)
— initial recognition on lease liabilities	—	—	156,597	156,597
— addition to lease liabilities	—	—	9,786	9,786
— interest charged	11,455	—	15,116	26,571
— other payables	(4,368)	—	(9,467)	(13,835)
— cessation of lease	—	—	(142,759)	(142,759)
— exchange differences	—	(942)	(3,333)	(4,275)
At 31 December 2019 and 1 January 2020	53,200	121,318	7,063	181,581
Changes in cash flows	—	13,769	(1,120)	12,649
Non-cash changes				
— interest charged	16,078	—	424	16,502
— other payables	(4,368)	—	(4,072)	(8,440)
— exchange differences	—	3,174	113	3,287
At 31 December 2020	64,910	138,261	2,408	205,579

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

34. RELATED PARTY TRANSACTIONS

The Group has entered into the following material related party transactions during the reporting period:

Key management personnel remuneration

Remuneration for key management personnel including amounts paid to the Company's Directors and all of the highest paid employees as disclosed in note 15, is as follows:

	2020 HK\$'000	2019 HK\$'000
Short-term employee benefits	5,646	5,202
Post-employment benefits	96	127
	5,742	5,329

Total remuneration is included in "staff costs".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the Company accepted a loan agreement from the Investor, in which a term loan facility in the principal sum of up to RMB50,000,000 (approximately HK\$59,382,000), commencing from 25 January 2021 and ending on 31 January 2024. Interest will be charged at 15% per annum, all interest payments related to such loan shall be paid on 31 January 2022, 31 January 2023, and upon repayment date, if such date is not business day, the next business day.

After the end of the reporting period, the Company received a letter from the Investor, in which the Investor had committed not to ask for repayment of loans principal of HK\$800,000 and approximately HK\$17,058,000 from him before July 2022 and all interest payments related to such loans shall only be paid upon the maturity date or repayment date of these loans, which is on 30 September 2022 or if such date is not business day, the next business day. The Investor also agree not to demand for repayment for working capital of approximately RMB1,290,000 (approximately HK\$1,532,000) lent to the Group by certain companies controlled by the Investor and approximately HK\$1,160,000 lent to the Group by the Investor before July 2022.

After the end of the reporting period, the Company also received a letter from China Daisy, in which China Daisy had committed not to ask for repayment of a loan principal of HK\$40,000,000 before July 2022 and all interest payments related to the loan shall only be repaid upon the repayment date of the loan, which is on 27 September 2022 or if such date is not a business day, the next business day.

After the end of the reporting period, a wholly-owned subsidiary of the Company, entered into a bank loan agreement to borrow a loan of RMB8,000,000 for a period of one year from 11 January 2021 to 10 January 2022. The effective interest rate was 3.49% per annum. The bank loan was secured by an executive Director of the Company and properties owned by a company controlled by the Investor.

The maturity date in relation to the sale and purchase of convertible bonds of US\$7,000,000 due on 15 January 2021 issued on 15 January 2018 is extended to 3 July 2021 under the deed of amendments dated 16 March 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. PARTICULARS OF SUBSIDIARIES

- (a) Particulars of the Company's subsidiaries which affected the results, assets and liabilities of the Group as at 31 December 2020 were as follows:

Name of subsidiary	Place of incorporation/ business	Particulars of issued share capital/paid up registered capital	Percentage of ownership interest/ voting power/profit sharing		Principal activities
			Direct	Indirect	
Golden Leo Development Limited 金獅發展有限公司	Hong Kong	1 ordinary share of HK\$1	100%	—	Inactive
Elite Mix Limited 合俊有限公司	British Virgin Islands	1 ordinary share of USD 1 each	100%	—	Investment holding
Hugh Smart Investments Limited 鉅俊投資有限公司	Hong Kong	1 ordinary share of HK\$1	—	100%	Investment holding
Shenzhen CETH Environmental Technology Co. Ltd.# 深圳中環科環保科技有限公司*	PRC**	RMB 19,826,025	—	100%	Development of environmental protection related project
Vast Investment Limited 冠浩有限公司	British Virgin Islands	1 ordinary share of USD 1 each	100%	—	Investment holding
Great Champion Holdings Limited 大盛集團有限公司	Hong Kong	10,000,000 ordinary share of HK\$1	—	100%	Inactive
Winsum Investment Limited	British Virgin Islands	1 ordinary share of USD 1 each	100%	—	Investment holding
Power Score Limited 力得有限公司	British Virgin Islands	50,000 ordinary share of USD 1 each	—	100%	Investment holding
New Era Technology Development Limited 年代科技發展有限公司	Hong Kong	1 ordinary share of HK\$1	—	100%	Investment holding
Beijing Jingrui Kemai Water Purification Technology Company Limited# 北京精瑞科邁淨水技術有限公司*	PRC**	RMB10,000,000	—	100%	Development of water purification technology and wastewater treatment equipment trading
Hunan Qifan Environmental Technology Co., Ltd.# 湖南啟帆環保科技有限公司	PRC**	RMB5,000,000	—	80%	Development of environmental protection related project
Well Nation Holdings Limited	British Virgin Islands	1 ordinary share of USD 1 each	100%	—	Investment holding
Rich Channel International Limited 富啟國際有限公司	Hong Kong	1 ordinary share of HK\$1	—	100%	Investment holding
Beijing Capital Environment Construction Company Limited	Cayman Islands	10 ordinary shares of HK\$1 each	100%	—	Investment holding
Beijing Capital Environment Construction (Hong Kong) Company Limited 首創環保建設(香港)有限公司	Hong Kong	1 ordinary share of HK\$1	—	100%	Investment holding
Beijing Shouqiang Innovative Environmental Protection Technology Co., Ltd.# 北京首強創新環保科技有限公司*	PRC**	HK\$6,000,000	—	100%	Provision of environmental consultancy services
Beijing Jinrui Tongda Technology Company Limited# 北京金瑞通達科技有限公司*	PRC**	HK\$5,000,000	—	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ business	Particulars of issued share capital/paid up registered capital	Percentage of ownership interest/ voting power/profit sharing		Principal activities
			Direct	Indirect	
Beijing Xinchuang Technology Development Company Limited [#] 北京興創科技發展有限公司*	PRC**	HK\$68,000,000	—	100%	Investment holding
INNOMED Group Limited 醫諾醫療集團有限公司	British Virgin Islands	1 ordinary share of US\$1 each	100%	—	Investment holding
Innomed (HK) Limited 醫諾醫療(香港)有限公司	Hong Kong	1 ordinary share of HK\$1	—	100%	Investment holding
Innomed (Shenzhen) Limited [#] 深圳市醫諾醫療技術服務有限公司*	PRC**	RMB0.00	—	100%	Development of medical information system and health care management consulting
Shenzhen CETH Assets Management Co., Ltd. [#] 深圳中環科資產管理有限公司*	PRC**	RMB20,000,000	—	100%	Investment holding
Hainan Yinkai Medical Investment Co., Limited ("Hainan Yinkai") [#] 海南銀開醫療投資有限公司	PRC**	RMB40,000,000	—	52.02%	Development of medical technology
Beijing INNOMED North Medical Technology Service Co., Limited [#] 北京醫諾北方醫療技術服務有限公司*	PRC**	RMB6,800,000	—	100%	Provision of health consultancy services
Hope Biotech (Hong Kong) Ltd 厚樸生物科技(香港)有限公司	Hong Kong	204,081 ordinary share of HK\$1	—	51%	Investment holding
Bomai Biomedical Testing (Suzhou) Company Limited [#] 泊邁生物醫學檢測(蘇州)有限公司*	PRC**	RMB10,000,000	—	51%	Research and development of cell technology
Hope Biological Cell Repository (Suzhou) Company Limited [#] 厚樸生物細胞庫(蘇州)有限公司*	PRC**	RMB20,000,000	—	51%	Wholesale of cosmetics
Jiangsu Hope Biotechnology Group Company Limited [#] (Note i) 江蘇厚璞生物科技集團有限公司*	PRC**	RMB50,000,000	—	51%	Development of medical technology
Zhejiang Hope Biotechnology Company Limited [#] 浙江厚譜生物科技有限公司*	PRC**	RMB10,000,000	—	51%	Development of medical technology

Note i PRC rules and regulations restricted foreign ownership of companies in certain industries. The Group has been conducting its operation in this industry through a subsidiary controlled by a contractual agreement which is ultimately wholly-owned by Mr. Xu Zhongping, the non-executive Director and controlling shareholder of the Company.

* a wholly foreign owned enterprise

** a limited liability enterprise

The company name in English is not the official name but a translation for reference only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. PARTICULARS OF SUBSIDIARIES (Continued)

(b) Details of non-wholly owned subsidiary that have material non-controlling interests (“NCI”)

The following table shows information of the subsidiary that has NCI material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name Principal place of business/country of incorporation	Hainan Yinkai PRC	
	2020	2019
% of ownership interest/voting rights held by NCI	47.98%	47.98%
	HK\$'000	HK\$'000
As 31 December:		
Non-current assets	3	5
Current assets	11,151	10,511
Current liabilities	(229)	(215)
Net assets	10,925	10,301
Carrying amount of NCI	5,242	4,942
Year ended 31 December:		
Revenue	—	—
Loss for the year	(9)	(41)
Total comprehensive income/(expenses)	626	(227)
Loss allocated to NCI	(4)	(20)
Net cash used in operating activities	(16)	—
Net decrease in cash and cash equivalents	(16)	—

37. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are approved and authorised for issue by the Board of Directors on 31 March 2021.

FIVE YEAR FINANCIAL SUMMARY

For the year ended 31 December 2020

	Year ended 31 December				
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
RESULTS					
Continuing operations					
Revenue	53,500	33,787	49,443	72,668	34,689
Loss from operations	(35,647)	(218,586)	(310,503)	(49,229)	(53,004)
Finance costs	(32,516)	(44,488)	(16,218)	(9,081)	(9,537)
Loss before tax	(68,163)	(263,074)	(326,721)	(58,310)	(62,541)
Income tax credit/(expenses)	—	634	308	(4,464)	2,454
Loss for the year from continuing operations	(68,163)	(262,440)	(326,413)	(62,774)	(60,087)
Discontinued operations					
Loss for the year from discontinued operations	—	—	—	—	—
Loss for the year	(68,163)	(262,440)	(326,413)	(62,774)	(60,087)
Attributable to:					
— Owners of the Company	(68,051)	(260,883)	(309,054)	(64,379)	(55,239)
— Non-controlling interests	(112)	(1,557)	(17,359)	1,605	(4,848)
Loss for the year	(68,163)	(262,440)	(326,413)	(62,774)	(60,087)

FIVE YEAR FINANCIAL SUMMARY

For the year ended 31 December 2020

	As at 31 December				
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
ASSETS AND LIABILITIES					
Non-current assets	4,607	9,754	83,052	204,177	7,411
Net current (liabilities)/assets	(461,297)	(334,959)	(241,647)	(43,855)	19,230
Non-current liabilities	(80,991)	(140,020)	(49,113)	(35,780)	(23,407)
	(537,681)	(465,225)	(207,708)	124,542	3,234
Share capital	91,259	91,259	91,259	91,259	75,009
Reserves	(632,788)	(560,454)	(301,498)	(11,648)	(64,805)
Total equity attributable to owners of the Company	(541,529)	(469,195)	(210,239)	79,611	10,204
Non-controlling interests	3,848	3,970	2,531	44,931	(6,970)
Total (capital deficiency)/equity	(537,681)	(465,225)	(207,708)	124,542	3,234
	2020	2019	2018	2017	2016
	HK\$	HK\$	HK\$	HK\$	HK\$
Loss per share					
Basic	(1.86 cents)	(7.15 cents)	(8.47 cents)	(1.84 cents)	(2.19 cents)
Diluted	(1.86 cents)	(7.15 cents)	(8.47 cents)	(1.84 cents)	(2.19 cents)