

# BEIJING ENTERPRISES WATER GROUP LIMITED

Annual Report 2020



北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 371)



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Director

Mr. Zhao Feng

### Independent Non-executive Directors

Mr. Shea Chun Lok Quadrant  
Mr. Zhang Gaobo  
Mr. Guo Rui  
Mr. Wang Kaijun  
Dr. Lee Man Chun Raymond

## AUDIT COMMITTEE

Mr. Shea Chun Lok Quadrant (*Chairman*)  
Mr. Zhang Gaobo  
Mr. Guo Rui

## NOMINATION COMMITTEE

Mr. Li Yongcheng (*Chairman*)  
Mr. Zhang Gaobo  
Mr. Guo Rui

## REMUNERATION COMMITTEE

Mr. Zhang Gaobo (*Chairman*)  
Mr. Guo Rui

## COMPANY SECRETARY

Mr. Tung Woon Cheung Eric

## AUDITORS

Ernst & Young  
*Certified Public Accountants*  
*Registered Public Interest Entity Auditor*

## STOCK CODE

371

## WEBSITE

[www.bewg.net](http://www.bewg.net)

## REGISTERED OFFICE

Victoria Place, 5th Floor  
31 Victoria Street  
Hamilton HM 10  
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 6706-07, 67th Floor  
Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong  
Tel: (852) 2105 0800  
Fax: (852) 2796 9972

## PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

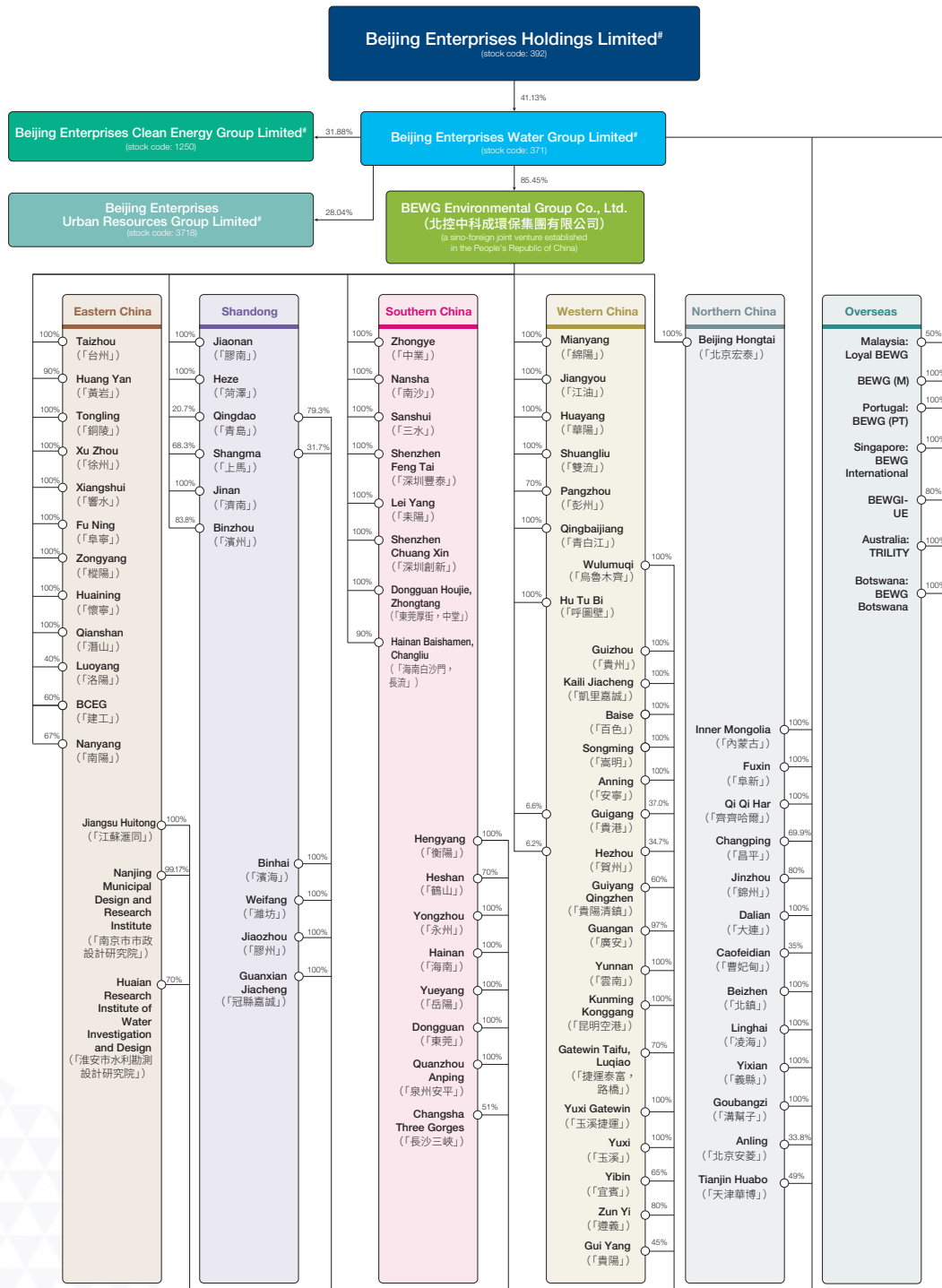
## PRINCIPAL BANKERS

In Hong Kong:  
Agricultural Bank of China Limited Hong Kong Branch  
Bank of China (Hong Kong) Limited  
Bank of Communications Co., Limited  
DBS Bank Ltd., Hong Kong Branch  
Hang Seng Bank Limited  
Industrial and Commercial Bank of China (Asia) Limited  
Mizuho Bank, Ltd.

In Mainland China:  
Agricultural Bank of China  
Bank of Beijing Co., Limited  
Bank of Communications Co., Limited  
Bank of China Limited  
China Construction Bank Corporation  
China Development Bank  
Industrial and Commercial Bank of China Limited  
Postal Savings Bank of China  
The Export-Import Bank of China

# GROUP STRUCTURE

31 December 2020



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

Note: The above group chart only lists out major subsidiaries, associates and joint ventures

# CHAIRMAN'S STATEMENT

Dear shareholders,

In 2020, the extensive spread of the COVID-19 pandemic worldwide has dealt a blow to, and given rise to complexity in, the global economy, while China managed to maintain stable economic development in general and continued the structural improvement in the economy. Beijing Enterprises Water Group Limited (the “Company”, together with its subsidiaries, collectively referred to as the “Group” or “BEWG”) upheld the philosophy of sustainable development by maintaining a portfolio that gives light and heavy assets with equal value and keeping the expenditure upon the revenues. It actively participated in major national projects such as resource recovery from wastewater, protection of the Yangtze River and ecological conservation of the Yellow River basin as well as rural living environment improvement so as to deliver a satisfactory growth in operating results. By pursuing high quality development, it has contributed to the achievement of goals set out in the 13th Five-Year Plan.

## PERFORMANCE REVIEW

For the year ended 31 December 2020, the Group recorded a net increase in daily design capacity of 2,735,854 tons, bringing the total daily design capacity to 42,124,736 tons. Revenue for the year was HK\$25,360.6 million, which decreased by 10% year-on-year. Total profit attributable to shareholders of the Company amounted to HK\$4,183.5 million, which decreased by 15% year-on-year. Basic earnings per share for the year was HK41.57 cents. In recognition of the continuous support of the shareholders to the Company, the board of directors of the Company (the “Board”) resolved to make a final cash distribution of HK7.8 cents per share to the shareholders.

The Group's transformation towards an asset-light and digitalised enterprise enjoys the recognition by and support from Beijing Enterprises Group Company Limited (“BEGCL”), the controlling shareholder of the Company. With such initiative, together with the support from fellow subsidiaries under BEGCL in respect of market expansion and brand building, the Group was able to sustain the high quality development of its businesses.

Amid the global COVID-19 pandemic in 2020, the staff of the Group worked in harness to strictly comply with the preventive measures and isolation requirements of local governments. The Group has developed its own infection preventive and control measures. More frequent inspections were conducted and operations went on throughout the year to ensure safe water supply and up-to-standard sewage treatment while safeguarding the safety and health of the staff. Close communication with local governments/clients was maintained through phone calls and online means and, subject to their approvals, project investment and construction were deferred to ensure construction quality and work resumption in an orderly manner. As such, the Group saw decreases in revenue from the construction segment and, hence, the profit attributable to shareholders of the Group for 2020 as compared to the previous year.

# CHAIRMAN'S STATEMENT

Ten ministries and commissions including the National Development and Reform Commission and the Ministry of Housing and Urban-Rural Development have jointly issued the Implementation Plan for Strengthening Shortcomings of Urban Domestic Wastewater Treatment Facilities (《城鎮生活污水處理設施補短板強弱項實施方案》) and the Guiding Opinions for the Promotion of Resource Recovery from Wastewater (《關於推進污水資源化利用的指導意見》) for the planning of all-round promotion of resource recovery from wastewater with an aim of realising high quality development of resource recovery from wastewater on a national scale. As a leading enterprise specialising in the recycling and reuse of water resources and the conservation of water ecosystem, the Group keeps a clear focus on the efficient development and sustainable reuse of water resources. It continues to enhance the efficiency of water reuse by actively pursuing innovation and building up experience and technology through the development and introduction of advanced technology. With sophisticated techniques and management capability for lean operations, the Daoxiang Lake reclaimed water plant in Beijing, Changi II NEWater Plant in Singapore and other projects of the Group have been supplying high-quality water for industrial consumption and for landscaping and drinking purposes.

The Group has been committed to the country's major projects for the conservation and restoration of ecosystems such as the Yangtze River Protection Plan, for which the Group has strengthened the cooperation with China Three Gorges Corporation ("CTG") based on an asset-light model with fruitful results. By increasing its shareholding in the Company from the secondary market, CTG has demonstrated its recognition of and trust in the Group's business sustainability. Looking forward, the Group will further promote closer cooperation and build mutual trust with CTG based on its dual-platform model so that project implementation can be arranged in proper order with the ultimate goal of delivering cleaner water and a better environment in the Yangtze River basin.

Capitalising on the opportunities brought by the country's strategy to vitalise rural economy and policy to tackle rural pollution, the Group vigorously participated in the construction of livelihood infrastructure. The Group won the bid and secured the contract for the Public-Private Partnership ("PPP") project of rural and domestic sewage treatment facilities (Phase III) in Heshan.

In 2020, China set for the first time a specific time frame to achieve carbon neutrality. Beijing Enterprises Clean Energy Group Limited, one of the group companies, acted strenuously in response to the national strategy for green development and promoted the healthy growth and orderly progression of the businesses of photovoltaic power generation, wind power generation and clean heat supply.

Beijing Enterprises Urban Resources Group Limited, one of the group companies, principally engages in the provision of environmental hygiene and hazardous waste treatment services. With the active and effective prevention and control of the pandemic, it took advantage of market opportunities during the pandemic to offer high-quality environmental hygiene services and has secured a healthy and progressive growth.

# CHAIRMAN'S STATEMENT

## CORPORATE MANAGEMENT AND CONTROL

In 2020, major economies around the world faced slower growth, which, along with the complicated and changing international landscape, has increased uncertainty at the macro level. Meanwhile, people's pursuit of better life quality and the nation's goal of building an ecological civilisation have prompted the transformation into high quality development, which has posed challenges for environmental protection enterprises in terms of technology, operation, talent and other aspects.

Under the strategic guidance for ecological improvement, comprehensive innovation and digitalisation, a "1+N" smart integrated business model has been established by the Group for a high degree of integration of digitalisation technology and business operation. The Group has developed its own service application platform, BECloud. Being the first of its kind in the industry, this data and service platform features smart interconnection, smart control, smart thinking and smart management and supports large-scale collection of big data of water services for rapid deployment. Together with BETHink™ and other professional applications and technologies developed by the Group, it constitutes a comprehensive solution for digitalised operation. During the year, more than 20 Smart Water groups were formed covering over 70 water plants, hundreds of pumping stations and rural sewage treatment stations and thousands of kilometres of sewer networks. Real-time data of 170 water plants and real-time videos of 130 water plants are stored and available for access in the cloud, demonstrating the effectiveness of the Group's efforts in heading towards a smart enterprise. Based on a digitalised technology platform, the Group is committed to promoting business optimisation, organisational reform and business model innovation.

With a future direction and vision for offering services from the forefront, the Group has reorganised its technological establishments and set up the BEWG Research Institute and Product Centre (北控水務研究院和產品中心). It restructured a technology-based platform for the "technological research & development and introduction of technology" by taking advantage of its position to gain access to domestic and foreign development of water services and environmental protection technologies. It also strived to build up the technology base and enhance the product integration and innovation capacity for the front part, solutions, and middle part, product development, of its projects. The Group pushed ahead with technological innovation so as to facilitate industry restructuring and upgrade and boost core competitiveness.

Facing the outbreak of the COVID-19 pandemic, the Group kept the expenditure within the limits of revenues in 2020 by strengthening its cash flow management and improving its capital efficiency. Collection of accounts receivables became one of the components of the performance appraisal system and rigid capital budget was strictly managed. The Group adopted a diversified financing system and employed new financing means to optimise its debt structure. It received capital injection from Ping An Asset Management, thereby strengthening the capital base of the Group. It successfully issued 2020 perpetual medium-term panda notes series 1, which is the first perpetual medium-term panda notes approved and successfully issued in the interbank market in China, thereby demonstrating the recognition and support of the Group's brand and credibility from the capital market.



# CHAIRMAN'S STATEMENT

## SUSTAINABLE DEVELOPMENT

The Group follows “the path to cleanness, the path to good governance and the path to mutual aid” when pursuing sustainable development. As the core spirit of our operation, we aim to achieve sustainability in five areas, namely strategic sustainability, management sustainability, business sustainability, environmental sustainability and social sustainability, in order to further enhance our corporate governance system with a focus on environmental, social and governance aspects.

The Group values highly science technology, innovation, research and development and achievement transformation. In response to market demand and being customer-oriented, the Group explores innovative models for grouping management to lower costs and boost efficiency. Simultaneously we also take advantage of digital and smart approaches to break the shackles of time, upgrade quality of work and realise lean operation. Such efforts have allowed the Group to advance and evolve to a new level in terms of technological depth, data breath and lead time.

In face of the imminent threats of climate change, the Group attaches great importance to the conservation of water resources. We have responded swiftly to the Action Plan for Prevention and Control of Water Pollution (《水污染防治行動計劃》) published by the State Council of the People's Republic of China (“PRC”) by formulating and publishing our own Measures for Water Resources Management of BEWG (《北控水務集團水資源管理辦法》), which requires that all of the water-related projects of the Group shall be subject to central management and that the whole process from development, utilisation and protection of water resources shall be managed and controlled in a scientific manner.

The Group adheres to the development philosophy of a green and low-carbon management. We have responded swiftly to the national strategy of green development by formulating and introducing our own Administrative Measures for Low-carbon Operation of Projects of BEWG (《北控水務集團運營項目低碳運行管理辦法》) and other internal systems as well as an award system for energy conservation and emission reduction. These initiatives are set to refine the low carbon management and operation model of projects and enhance the capability of lean operation, thereby contributing to the national goal of carbon neutrality.

Meanwhile, in consideration of the wide coverage of its overseas business operations and being a responsible multi-national corporation with worldwide business presence, the Group strictly complies with the requirements of overseas governments and strictly abides by local policies of ecological resources and biodiversity protection.

High-quality talent is one of the cornerstones and driving forces of corporate sustainability. The Group emphasises people-oriented management in order to secure the interests of our staff. For the purposes of meeting the management needs for training and recruiting future talents for the asset-light strategy, we selected, promoted and adjusted the salary of various high-calibre staff with strong potential. We will enhance staff training so as to foster leaders and business elites for the industry and signify our exemplary role as an industry leader.

# CHAIRMAN'S STATEMENT

Under the digitalisation strategy, the Group actively explores the digital transformation of supply chains. BEWG Smart Chain (北水智鏈), a digital supply chain service platform, has been established to promote fair and open procurement of materials and services. We have formulated various internal regulations including the Procurement Management System of BEWG (《北控水務集團採購管理制度》) and the Supplier Management Policy of BEWG (《北控水務集團供應商管理政策》), so as to continuously improve the development of the supplier management system and build up a healthy, sustainable and responsible supply chain.

## FUTURE PROSPECT

Year 2021 is the first year of the 14th Five-Year Plan and is the historic year of converging of the Two Centenary Goals. The 14th Five-Year Plan features continuous endeavours in pollution prevention and ecological construction. The ongoing aims for better environmental quality have presented enormous opportunities for the development of the environmental industry. Being committed to progressing with the country, keeping abreast of the times and realising the dream of growth, the Group will boost its productivity with new demands and respond to new trends with new cooperation pattern. Clients will always be our top priority and we will further develop the two core businesses namely urban water services and water environment comprehensive renovation. In order to achieve quality growth, we will continue to develop innovative business models, actively expand into new operations, step up the establishment of smart water services, promote asset-light and digital transformation, enhance product and service capability, pursue technological upgrade and strengthen professional competence.

During the period of the 14th Five-Year Plan, BEGCL and CTG will continue to acknowledge and trust the strategic position of the Group. By taking advantages of the synergy from the cooperation, the Group will be able to further strengthen the edge in the water and environmental sector. We will strive to realise the “two mountains philosophy” in the theory that “clear waters and lush mountains are gold and silver mountains” proposed by General Secretary Xi Jin-ping and vigorously promote the modernisation of environmental governance.

Lastly, I would like to extend my sincere gratitude to all shareholders, customers, staff and joint venture partners for their continual and tremendous support for the Group.

**Li Yongcheng**  
*Chairman*

30 March 2021

# MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year attributable to shareholders of the Company decreased by 15% to HK\$4,183.5 million. Revenue decreased by 10% to HK\$25,360.6 million as a result of decrease in revenue contribution from construction services for the water environmental renovation projects.

## 1. FINANCIAL HIGHLIGHTS

The analysis of the Group's financial results during the year is set out in details below:

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
<b>1. Water treatment services</b>					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	5,919.0	23%	60%	2,555.2	
– Joint ventures and associates				279.8	
				2,835.0	37%
Overseas					
– Subsidiaries	338.6	1%	24%	37.3	–
	6,257.6	24%		2,872.3	37%
Water distribution services					
China					
– Subsidiaries	2,187.8	9%	48%	652.8	8%
– Joint ventures				193.5	2%
				846.3	10%
Overseas					
– Subsidiaries	515.5	2%	36%	132.8	2%
– Joint ventures				43.9	1%
				176.7	3%
	2,703.3	11%		1,023.0	13%
Subtotal	8,960.9	35%		3,895.3	50%

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

The analysis of the Group's financial results during the year is set out in details below: *(Continued)*

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%
<b>2. Construction services for the water environmental renovation</b>					
Construction services for comprehensive renovation projects					
– Projects with completion rate more than 10% <sup>§</sup>	4,311.6	17%	26%	874.9	11%
– Interest income	–	–	–	276.1	4%
	4,311.6	17%	26%	1,151.0	15%
Construction of BOT water projects	8,832.7	35%	23%	1,641.6	21%
Subtotal	13,144.3	52%		2,792.6	36%
<b>3. Technical services and sale of machineries for the water environmental renovation</b>					
	3,255.4	13%	52%	1,077.7	14%
<b>Business results</b>	25,360.6	100%		7,765.6	100%
<b>Others<sup>#</sup></b>				(3,582.1)	
<b>Total</b>				4,183.5	

<sup>#</sup> Others included head office expense and other cost, net, of HK\$1,029.2 million, share of profit of joint ventures and associates of HK\$255.6 million, share award expenses of HK\$27.2 million, finance costs of HK\$2,549.1 million and profit attributable to holders of perpetual capital instruments of HK\$232.2 million. Others represented items that cannot be allocated to the operating segments.

<sup>§</sup> Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$99.3 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

The analysis of the Group's financial results during the last year is set out in details below:

	Revenue		GP ratio		Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%	
<b>1. Water treatment services</b>						
Sewage and reclaimed water treatment services						
China						
– Subsidiaries	4,784.7	17%	55%	2,110.6		
– Joint ventures and associates				265.9		
				2,376.5	29%	
Overseas						
– Subsidiaries	357.1	1%	25%	51.2	1%	
	5,141.8	18%		2,427.7	30%	
Water distribution services						
China						
– Subsidiaries	2,010.4	7%	51%	695.5	9%	
– Joint ventures				139.5	2%	
				835.0	11%	
Overseas						
– Subsidiaries	588.3	2%	36%	145.5	2%	
– Joint ventures				31.7	–	
				177.2	2%	
	2,598.7	9%		1,012.2	13%	
Subtotal	7,740.5	27%		3,439.9	43%	

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

The analysis of the Group's financial results during the last year is set out in details below: *(Continued)*

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%
<b>2. Construction services for the water environmental renovation</b>					
Construction services for comprehensive renovation projects					
– Projects with completion rate more than 10% <sup>§</sup>	7,399.7	27%	30%	1,661.0	21%
– Interest income	–	–	–	206.6	2%
	7,399.7	27%	30%	1,867.6	23%
Construction of BOT water projects	10,477.8	37%	25%	1,888.3	24%
Subtotal	17,877.5	64%		3,755.9	47%
<b>3. Technical services and sale of machineries for the water environmental renovation</b>					
	2,574.5	9%	51%	840.5	10%
<b>Business results</b>	<b>28,192.5</b>	<b>100%</b>		<b>8,036.3</b>	<b>100%</b>
<b>Others<sup>#</sup></b>				<b>(3,110.6)</b>	
<b>Total</b>				<b>4,925.7</b>	

<sup>#</sup> Others included head office expense and other cost, net, of HK\$590.5 million, share of profit of joint ventures and associates of HK\$174.7 million, share award expenses of HK\$27.2 million, finance costs of HK\$2,432.8 million and profit attributable to holders of perpetual capital instruments of HK\$234.8 million. Others represented items that cannot be allocated to the operating segments.

<sup>§</sup> Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$192.4 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the year ended 31 December 2020 and 2019 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	2020 HK\$'M	2019 HK\$'M	Increase/(Decrease) HK\$'M	%	2020 HK\$'M	2019 HK\$'M	Increase/(Decrease) HK\$'M	%
<b>1. Water treatment services</b>								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	5,919.0	4,784.7	1,134.3	24%	2,555.2	2,110.6	444.6	21%
– Joint ventures and associates					279.8	265.9	13.9	5%
					2,835.0	2,376.5	458.5	19%
<i>GP ratio</i>	60%	55%		5%				
Overseas								
– Subsidiaries	338.6	357.1	(18.5)	(5%)	37.3	51.2	(13.9)	(27%)
<i>GP ratio</i>	24%	25%		(1%)				
	6,257.6	5,141.8	1,115.8	22%	2,872.3	2,427.7	444.6	18%
Water distribution services								
China								
– Subsidiaries	2,187.8	2,010.4	177.4	9%	652.8	695.5	(42.7)	(6%)
– Joint ventures					193.5	139.5	54.0	39%
					846.3	835.0	11.3	1%
<i>GP ratio</i>	48%	51%		(3%)				
Overseas								
– Subsidiaries	515.5	588.3	(72.8)	(12%)	132.8	145.5	(12.7)	(9%)
– Joint ventures					43.9	31.7	12.2	38%
					176.7	177.2	(0.5)	–
<i>GP ratio</i>	36%	36%		–				
	2,703.3	2,598.7	104.6	4%	1,023.0	1,012.2	10.8	1%
Subtotal	8,960.9	7,740.5	1,220.4	16%	3,895.3	3,439.9	455.4	13%

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the year ended 31 December 2020 and 2019 is set out in details below: *(Continued)*

	Revenue				Profit attributable to shareholders of the Company			
	2020 HK\$'M	2019 HK\$'M	Increase/(Decrease) HK\$'M	%	2020 HK\$'M	2019 HK\$'M	Increase/(Decrease) HK\$'M	%
<b>2. Construction services for the water environmental renovation</b>								
Construction services for comprehensive renovation projects								
– Projects with completion rate more than 10%	4,311.6	7,399.7	(3,088.1)	(42%)	874.9	1,661.0	(786.1)	(47%)
– Interest income	–	–	–	–	276.1	206.6	69.5	34%
	4,311.6	7,399.7	(3,088.1)	(42%)	1,151.0	1,867.6	(716.6)	(38%)
<i>GP ratio</i>	26%	30%		(4%)				
Construction of BOT water projects								
– China	8,832.7	10,477.8	(1,645.1)	(16%)	1,641.6	1,888.3	(246.7)	(13%)
<i>GP ratio</i>	23%	25%		(2%)				
Subtotal	13,144.3	17,877.5	(4,733.2)	(26%)	2,792.6	3,755.9	(963.3)	(26%)
<b>3. Technical services and sale of machineries for the water environmental renovation</b>								
	3,255.4	2,574.5	680.9	26%	1,077.7	840.5	237.2	28%
<i>GP ratio</i>	52%	51%		1%				
<b>Business results</b>	<b>25,360.6</b>	<b>28,192.5</b>	<b>(2,831.9)</b>	<b>(10%)</b>	<b>7,765.6</b>	<b>8,036.3</b>	<b>(270.7)</b>	<b>(3%)</b>
Others					(3,582.1)	(3,110.6)	(471.5)	15%
<b>Total</b>					<b>4,183.5</b>	<b>4,925.7</b>	<b>(742.2)</b>	<b>(15%)</b>



# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW

The principal businesses of the Group include operations in water treatment business, construction and technical services for the water environmental renovation. The coverage of the Group's water plants has extended to 20 provinces, 5 autonomous regions and 3 municipalities all across Mainland China.

### 2.1 Water treatment services

As at 31 December 2020, the Group entered into service concession arrangements and entrustment agreements for a total of 1,334 water plants and town-size sewage treatment facilities including 1,115 sewage treatment plants and town-size sewage treatment facilities, 174 water distribution plants, 43 reclaimed water treatment plants and 2 seawater desalination plants. Total daily design capacity for new projects secured for the year was 3,801,454 tons including Build-Operate-Transfer (“BOT”) projects of 413,000 tons, Transfer-Operate-Transfer (“TOT”) projects of 60,000 tons, Public-Private Partnership (“PPP”) projects of 2,414,112 tons, entrustment operation projects of 889,342 tons, and 25,000 tons through mergers and acquisitions.

Due to different reasons such as expiration of projects, the Group exited projects with aggregate daily design capacity of 1,065,600 tons during the year. As such, the net increase in daily design capacity of the year was 2,735,854 tons. As at 31 December 2020, total daily design capacity was 42,124,736 tons.

*During the year, the Group entered into eight service concession arrangements for town-size sewage treatment projects with aggregate daily capacity of 105,952 tons.*

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

### 2.1 Water treatment services *(Continued)*

Analysis of projects on hand is as follows:

	Sewage treatment	Reclaimed water treatment	Water distribution	Seawater desalination	Total
<i>(Tons)</i>					
<b>China</b>					
In operation	14,197,237	1,179,200	9,276,194	–	24,652,631
Not yet commenced operation/ Not yet transferred	10,115,591	1,599,000	3,836,942	50,000	15,601,533
Subtotal	24,312,828	2,778,200	13,113,136	50,000	40,254,164
<b>Overseas</b>					
In operation	229,358	267,350	1,073,864	300,000	1,870,572
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	229,358	267,350	1,073,864	300,000	1,870,572
Total	24,542,186	3,045,550	14,187,000	350,000	42,124,736
<i>(Number of water plants and town-size sewage treatment facilities)</i>					
<b>China</b>					
In operation	679	19	111	–	809
Not yet commenced operation/ Not yet transferred	389	19	27	1	436
Subtotal	1,068	38	138	1	1,245
<b>Overseas</b>					
In operation	47	5	36	1	89
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	47	5	36	1	89
Total	1,115	43	174	2	1,334

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

### 2.1 Water treatment services *(Continued)*

	Number of plants and town-size sewage treatment facilities	Design capacity <i>(Tons/Day)</i>	Actual processing volume during the year* <i>(Tons (M))</i>	Revenue <i>(HK\$'M)</i>	Profit attributable to shareholders of the Company <i>(HK\$'M)</i>
<b>Sewage and reclaimed water treatment services:</b>					
Mainland China:					
– Southern China	313	3,700,490	1,137.8	1,317.5	696.9
– Western China	173	2,190,200	591.3	1,110.2	502.0
– Shandong	39	1,879,000	533.8	717.7	387.5
– Eastern China	88	4,504,200	1,270.7	1,595.1	646.5
– Northern China	85	3,102,547	902.2	1,178.5	602.1
	698	15,376,437	4,435.8	5,919.0	2,835.0
Overseas	52	496,708	103.7	338.6	37.3
Subtotal	750	15,873,145	4,539.5	6,257.6	2,872.3
<b>Water distribution services:</b>					
Mainland China	111	9,276,194	1,849.5	2,187.8	846.3
Overseas <sup>§</sup>	37	1,373,864	186.6	515.5	176.7
Subtotal	148	10,650,058	2,036.1	2,703.3	1,023.0
Total	898	26,523,203	6,575.6	8,960.9	3,895.3

\* Excluded entrustment operation contracts

<sup>§</sup> Included a seawater desalination plant

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

### 2.1 Water treatment services *(Continued)*

#### 2.1.1 Sewage and reclaimed water treatment services

##### 2.1.1a Mainland China

As at 31 December 2020, the Group had 679 sewage treatment plants and town-size sewage treatment facilities and 19 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and town-size sewage treatment facilities and reclaimed water plants reached to 14,197,237 tons (31 December 2019: 13,352,487 tons) and 1,179,200 tons (31 December 2019: 896,700 tons), respectively. The average daily processing volume is 12,425,755 tons\* and average daily treatment rate is 85%\*. The actual average contracted tariff charge of water treatment was approximately RMB1.28 per ton (31 December 2019: RMB1.17 per ton) for water plants. The actual aggregate processing volume for the year was 4,435.8 million tons, of which 3,982.4 million tons was contributed by subsidiaries and 453.4 million tons was contributed by joint ventures and associates. Total revenue for the year was HK\$5,919.0 million. Net profit attributable to shareholders of the Company was HK\$2,835.0 million, of which HK\$2,555.2 million was contributed by subsidiaries and HK\$279.8 million was contributed by joint ventures and associates. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

##### Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province, Fujian Province and Shaanxi Province. As at 31 December 2020, there were 313 plants and town-size sewage treatment facilities with total daily design capacity of 3,700,490 tons, representing an increase of 63,350 tons or 2% as compared with last year. The actual aggregate processing volume for the year amounted to 1,137.8 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$1,317.5 million and HK\$696.9 million respectively during the year.



\* Excluded entrustments operation contracts

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

### 2.1 Water treatment services *(Continued)*

#### 2.1.1 Sewage and reclaimed water treatment services *(Continued)*

##### 2.1.1a Mainland China *(Continued)*

###### Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 31 December 2020, there were 173 sewage treatment plants and town-size sewage treatment facilities with total daily design capacity of 2,190,200 tons, representing an increase of 245,200 tons per day or 13% as compared with last year. The actual processing volume for the year was 591.3 million tons. The operating revenue of HK\$1,110.2 million was recorded during the year. Profit attributable to shareholders of the Company amounted to HK\$502.0 million.

###### Shandong

There were 39 plants and town-size sewage treatment facilities in Shandong region. The total daily design capacity of Shandong region is 1,879,000 tons, representing an increase of 90,000 tons per day or 5% as compared with last year. The actual processing volume for the year was 533.8 million tons contributing operating revenue of HK\$717.7 million during the year. Profit attributable to shareholders of the Company was HK\$387.5 million.

###### Eastern China

There were 88 water plants and town-size sewage treatment facilities in Eastern China which were mainly located in Zhejiang Province, Jiangsu Province, Henan Province and Anhui Province. As at 31 December 2020, the total daily design capacity of Eastern China had increased by 368,700 tons to 4,504,200 tons or 9% as compared with last year. The actual processing volume for the year amounted to 1,270.7 million tons and operating revenue was HK\$1,595.1 million during the year. Profit attributable to shareholders of the Company was HK\$646.5 million.



###### Northern China

Currently, the Group has 85 plants and town-size sewage treatment facilities under operation in Northern China. They are mainly located in Liaoning Province and Beijing. The daily design capacity of Northern China had increased by 360,000 tons to 3,102,547 tons or 13% as compared with last year. The projects achieved actual processing volume of 902.2 million tons for the year. The operating revenue was HK\$1,178.5 million during the year. Profit attributable to shareholders of the Company was HK\$602.1 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

### 2.1 Water treatment services *(Continued)*

#### 2.1.1 Sewage and reclaimed water treatment services *(Continued)*

##### 2.1.1b Overseas:

As at 31 December 2020, the Group had 47 sewage treatment plants and 5 reclaimed water plants in Portugal, Singapore and Australia. Total daily design capacity in operation was 496,708 tons. The actual processing volume for the year is 103.7 million tons. Total revenue for the year was HK\$338.6 million. Profit attributable to shareholders of the Company was HK\$37.3 million.

#### 2.1.2 Water distribution services

##### 2.1.2a Mainland China:

As at 31 December 2020, the Group had 111 water distribution plants in operation. Total daily design capacity in operation was 9,276,194 tons (31 December 2019: 7,865,194 tons). The plants were located in Guizhou Province, Fujian Province, Guangdong Province, Hunan Province, Hebei Province, Shandong Province, Henan Province, Guangxi Province and Inner Mongolia Autonomous Region. The actual average contracted tariff charge of water distribution is approximately RMB2.04 per ton (31 December 2019: RMB2.09 per ton). The aggregate actual processing volume is 1,849.5 million tons, of which 1,015.1 million tons was contributed by subsidiaries, which recorded revenue of HK\$2,187.8 million and 834.4 million tons was contributed by joint ventures. Profit attributable to shareholders of the Company was HK\$846.3 million, of which profit of HK\$652.8 million was contributed by subsidiaries and a profit of HK\$193.5 million in aggregate was contributed by joint ventures.



##### 2.1.2b Overseas:

As at 31 December 2020, the Group had 36 water distribution plants and a sea desalination plant which supplies drinking water in Portugal and Australia. Total daily design capacity in operation was 1,373,864 tons. The actual processing volume for the year is 186.6 million tons of which 94.3 million tons was contributed by subsidiaries and 92.3 million tons was contributed by joint ventures. Total revenue for the year was HK\$515.5 million. Profit attributable to shareholders of the Company was HK\$176.7 million.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

### 2.2 Construction services for the water environmental renovation

#### 2.2.1 Construction services for comprehensive renovation projects

The Group had 27 comprehensive renovation projects under construction during the year. The projects mainly located in Zhejiang Hangzhou, Chengdu Jianyang, Inner Mongolia, Sichuan Panzhihua and Hebei Hengshui. Last year, the Group had 25 comprehensive renovation projects under construction in Zhejiang Hangzhou, Chengdu Jianyang, Malaysia Terengganu, Inner Mongolia, Sichuan Luzhou and Hebei Hengshui.

Revenue from comprehensive renovation projects decreased by HK\$3,088.1 million from last year of HK\$7,399.7 million to HK\$4,311.6 million this year. Due to the outbreak of Novel Coronavirus (“COVID-19”), construction works in several construction sites in China could only maintain limited operation or are forced to suspend in the first quarter of Year 2020. Additionally, to align with the Group’s asset-light strategy, the investment approach on the comprehensive renovation projects is more conservative. As such, there was decrease in construction revenue during this year.

According to the construction contracts, the Group charges an interest on the trade receivables from the customers with reference to certain mark-up on The People’s Bank of China’s lending rate for the year from the completion of the construction to time of the receipt of the trade receivables. Interest income from water environmental renovation projects attributable to shareholders of the Company was HK\$276.1 million for this year (31 December 2019: HK\$206.6 million).



Profit attributable to shareholders of the Company for the comprehensive renovation projects decreased by HK\$716.6 million from last year of HK\$1,867.6 million to HK\$1,151.0 million this year.

#### 2.2.2 Construction of BOT water projects

The Group entered into a number of service concession contracts on a BOT basis in respect of its water treatment business. Under HK(IFRIC)-Int 12 *Service Concession Arrangements*, the Group recognises the construction revenue with reference to the fair value of the construction service delivered in the building phase. The fair value of such service is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the inception date of service concession agreement. Construction revenue is recognised by using the percentage-of-completion method.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

### 2.2 Construction services for the water environmental renovation *(Continued)*

#### 2.2.2 Construction of BOT water projects *(Continued)*

During the year, water plants under construction were mainly located in Shandong, Henan, Zhejiang, Hunan, Sichuan and Ningxia provinces. Total revenue for construction of BOT water projects was HK\$8,832.7 million (31 December 2019: HK\$10,477.8 million) and profit attributable to shareholders of the Company was HK\$1,641.6 million (31 December 2019: HK\$1,888.3 million).

### 2.3 Technical services and sales of machineries for the water environmental renovation

The Group has couples of qualification in engineering for consulting and design of water treatment plants. As an integrated water system solution provider, the Group has not only acquired extensive experience in bidding, building and operating sewage water treatment projects, but also successfully marketed its treatment technology and experience in construction services to other operators and constructors.

Revenue from the provision of technical services and sales of machineries was HK\$3,255.4 million (31 December 2019: HK\$2,574.5 million), representing 13% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$1,077.7 million (31 December 2019: HK\$840.5 million).

### 2.4 Impact of COVID-19 pandemic in 2020

During the first quarter of 2020, construction works in several construction sites in China could only maintain limited operation or were forced to suspend due to the implementation of various preventive and emergency measures as a result of the outbreak of COVID-19 pandemic in China. The construction works was resumed gradually started from the second quarter of 2020. There has been no material adverse impact on the Group's liquidity position and working capital sufficiency as a result of the COVID-19 outbreak.

Given that the strict measures and policies to monitor and control the COVID-19 pandemic in China, together with the launch of COVID-19 vaccination, the Group expects that the risk of the COVID-19 pandemic on the Group's operations will be reduced in the coming year. The Group will pay close attention to the development of the COVID-19 pandemic and perform further assessment on its impact and take relevant measures.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS

### 3.1 Revenue

During the year, the Group recorded revenue of HK\$25,360.6 million (31 December 2019: HK\$28,192.5 million). The decrease was mainly due to the decrease in revenue from construction services for the water environmental renovation projects.

### 3.2 Cost of sales

Cost of sales for the year amounted to HK\$15,630.9 million, compared to last year of HK\$18,025.7 million. The decrease was mainly due to the decrease in cost of construction services of HK\$3,050.7 million. Cost of sales mainly included construction costs of HK\$9,959.1 million and operating costs of water plants of HK\$4,101.1 million. The construction costs mainly consisted of subcontracting charges. The operating costs of water plants, mainly included electricity charges of HK\$889.6 million, staff costs of HK\$1,257.8 million and major overhaul charges of HK\$209.0 million; while the increase in operating costs was mainly due to increase in actual water processing volume. Major overhaul charges were the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangements. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to profit or loss based on amortisation method during the service concession periods.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.3 Gross profit margin

During the year, gross profit margin slightly increased from last year of 36% to 38%. Increase was mainly due to the change in mix of revenue during this year. The revenue contribution from water treatment services increased from last year of 27% to this year of 35%, whereas the revenue contribution from construction services for the water environmental renovation decreased from 64% last year to this year of 52%. The gross margin of water treatment services is comparatively higher than the construction services for the water environmental renovation.

#### *Gross margin for sewage and reclaimed water treatment services:*

Gross margin for sewage and reclaimed water treatment services in Mainland China was increased to 60% (last year: 55%). The increase in gross margin was mainly due to decrease in the value-added tax rate (“VAT”) imposed on some of the project companies and recognition of one-off water treatment service income of some of the project companies. Gross margin for sewage and reclaimed water treatment services in Overseas was slightly decreased to 24% (last year: 25%).

#### *Gross margin for water distribution services:*

Gross margin for water distribution services in Mainland China was 48% (last year: 51%). Gross margin for water distribution services in Overseas was 36% (last year: 36%).

#### *Gross margin for construction services for comprehensive renovation projects:*

Gross margin for construction services for comprehensive renovation projects was 26% (last year: 30%). Gross margin decreased as the major comprehensive renovation projects for this year have a relatively lower average gross margin.

#### *Gross margin for construction of BOT water projects:*

Gross margin for construction of BOT water projects was 23% (last year: 25%).

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

Gross margin for the technical services and sale of machineries for the water environmental renovation was 52% (last year: 51%).

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$1,312.6 million during the year, compared to last year of HK\$1,308.9 million. The amount for this year mainly included sludge treatment income of HK\$143.4 million, pipeline installation income of HK\$205.6 million and government grant and subsidies of HK\$133.3 million.

### 3.5 Administrative expenses

Administrative expenses for the year increased to HK\$2,526.2 million, compared to last year of HK\$2,499.6 million. The increase was mainly due to the increase in staff related expenses as result of business expansion during the year.

### 3.6 Other operating expenses, net

Other operating expenses for the year increased to HK\$1,235.6 million, compared to last year of HK\$619.2 million. The increase was mainly due to increase in impairment losses recognised in current year.

### 3.7 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK\$1,745.8 million (31 December 2019: HK\$1,601.2 million) and interests on corporate bonds and notes payable of HK\$1,032.2 million (31 December 2019: HK\$1,029.6 million). The increase in finance costs was mainly due to the increase in bank and other borrowings during the year.

### 3.8 Share of profits of associates

Share of profits of associates decreased to HK\$330.8 million, compared to last year of HK\$385.0 million.

### 3.9 Share of profits of joint ventures

Share of profits of joint ventures increased to HK\$729.7 million, compared to last year of HK\$551.4 million. The increase was mainly due to increase in share of profits of the joint ventures which engaged in construction services for the water environmental renovation projects.

### 3.10 Income tax expense

Income tax expense for the year included the current PRC income tax of HK\$688.0 million. The effective tax rate for the PRC operation was about 16% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax charge for the year was HK\$547.5 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.11 Profit attributable to holders of perpetual capital instruments

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

### 3.12 Property, plant and equipment

Property, plant and equipment increased by HK\$534.2 million which was mainly due to additions in buildings and plant facilities for Build-Own-Operate (“BOO”) projects during the year.

### 3.13 Investment properties

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

### 3.14 Amounts due from contract customers, receivables under service concession arrangements and trade receivables

The Group’s total amounts due from contract customers, receivables under service concession arrangements and trade receivables of HK\$112,467.8 million (2019: HK\$96,446.9 million) included:

By accounting nature:

	2020			2019		
	Non-current HK\$'M	Current HK\$'M	Total HK\$'M	Non-current HK\$'M	Current HK\$'M	Total HK\$'M
(i) Amounts due from contract customers	42,314.2	3,091.7	45,405.9	46,646.9	2,988.4	49,635.3
(ii) Receivables under service concession arrangements	41,698.3	4,131.4	45,829.7	32,033.3	3,815.4	35,848.7
(iii) Trade receivables	12,277.1	8,955.1	21,232.2	4,638.4	6,324.5	10,962.9
<b>Total</b>	<b>96,289.6</b>	<b>16,178.2</b>	<b>112,467.8</b>	<b>83,318.6</b>	<b>13,128.3</b>	<b>96,446.9</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

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

- (i) Amounts due from contract customers of HK\$45,405.9 million represent the balances of accumulated construction costs incurred to date plus recognised accumulated gross profits exceeding progress billings arising from BOT projects and comprehensive renovation projects during the phase of construction. Total balance decreased by HK\$4,229.4 million (non-current portion decreased by HK\$4,332.7 million and current portion increased by HK\$103.3 million), which was mainly due to reclassification to trade receivables and receivables under service concession arrangements as a result of construction completion of certain water environmental renovation projects;
- (ii) Receivables under service concession arrangements of HK\$45,829.7 million represent the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts arising from BOT and TOT projects. The increase in balance by HK\$9,981.0 million (non-current portion increased by HK\$9,665.0 million and current portion increased by HK\$316.0 million) was mainly due to reclassification from amounts due from contract customers as a result of operation commencement of certain BOT projects; and
- (iii) Trade receivables of HK\$21,232.2 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The balance increased by HK\$10,269.3 million (non-current portion increased by HK\$7,638.7 million and current portion increased by HK\$2,630.6 million). Increase in trade receivables was mainly due to reclassification from amounts due from contract customers as a result of construction completion of certain comprehensive renovation projects.

By business nature:

	<b>2020</b> <i>HK\$'M</i>	2019 <i>HK\$'M</i>
Water treatment services by BOT and TOT projects	<b>76,823.7</b>	66,091.6
Construction services of comprehensive renovation projects	<b>31,486.2</b>	27,120.7
Technical and consultancy services and other businesses	<b>4,157.9</b>	3,234.6
<b>Total</b>	<b>112,467.8</b>	96,446.9

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

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

Total receivables, which relates to the BOT and TOT projects, recognised under the service concession agreements in accordance with the HK(IFRIC)-Int 12 *Service Concession Arrangements* were HK\$76,823.7 million (2019: HK\$66,091.6 million). Total receivables for the construction service of comprehensive renovation projects were HK\$31,486.2 million (2019: HK\$27,120.7 million). Total receivables for technical and consultancy services and other businesses were HK\$4,157.9 million (2019: HK\$3,234.6 million).

### 3.15 Operating concessions

Operating concessions represents rights that the Group can charge users under service concession contracts. It is a non-guarantee receipt right to receive cash because the chargeable amounts are contingent on the extent that the users use the service. The balance arises from BOT and TOT projects in operation. The balance increase was mainly due to reclassification from amounts due from contract customers as a result of operation commencement of certain BOT projects.

### 3.16 Investments in joint ventures

Investments in joint ventures increased by HK\$1,992.7 million, mainly due to the capital injection to the joint ventures, conversion of a subsidiary to a joint venture and share of profit during the year.

### 3.17 Investments in associates

Investments in associates increased by HK\$1,099.2 million, mainly due to the share of profits and exchange fluctuation reserve during the year.

### 3.18 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK\$69.5 million (non-current portion decreased by HK\$501.3 million and current portion increased by HK\$570.9 million), mainly due to the increase in value-added tax receivables.

### 3.19 Other payables and accruals

Other payables and accruals increased by HK\$952.3 million. The increase was mainly due to the increase in other liabilities and amount due to joint ventures during the year.

### 3.20 Cash and cash equivalents

Cash and cash equivalents increased by HK\$2,537.3 million, mainly due to capital contributions into a subsidiary from Hangzhou Xiaoshan Ping An Cornerstone II Equity Investment Co., Ltd<sup>#</sup> (杭州蕭山平安基石貳號股權投資有限公司).

<sup>#</sup> for identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.21 Perpetual capital instrument under the equity attributable to shareholders of the Company

On 12 May 2020, the Company issued perpetual capital instrument with an aggregate principal amount of RMB1,000,000,000 for the purposes of project construction and general working capital for its subsidiaries. There is no maturity of the instrument and the payments of distribution can be deferred at the discretion of the Company subject to certain conditions. The perpetual capital instrument is classified as equity instruments.

### 3.22 Non-controlling interests

Non-controlling interests increased by HK\$3,425.4 million. Increase was mainly due to capital contributions into a subsidiary from Hangzhou Xiaoshan Ping An Cornerstone II Equity Investment Co., Ltd\* (杭州蕭山平安基石貳號股權投資有限公司).

### 3.23 Bank and other borrowings

Bank and other borrowings increased by HK\$10,257.5 million. Increase in bank and other borrowings was mainly from new bank loans utilised to finance for the acquisition and construction of various water projects in the PRC and the appreciation of RMB during the year.

### 3.24 Corporate bonds

Corporate bonds increased mainly due to the net increase in corporate bond of principal amount of RMB700 million and the appreciation of RMB during the year.

### 3.25 Trade payables

The decrease in trade payables by HK\$471.3 million was mainly due to decrease in trade payables to subcontractors for construction services of the water environmental renovation projects during the year.

### 3.26 Deferred Income

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

### 3.27 Liquidity and financial resources

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

As at 31 December 2020, the Group's cash and cash equivalents amounted to HK\$14,697.2 million (31 December 2019: HK\$12,159.9 million).

\* for identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.27 Liquidity and financial resources *(Continued)*

The Group's total borrowings amounted to HK\$72,286.3 million (31 December 2019: HK\$61,265.2 million) comprised bank and other borrowings of HK\$49,633.7 million (31 December 2019: HK\$39,376.2 million), finance lease payables\* of HK\$264.7 million (31 December 2019: HK\$379.3 million), notes payable of HK\$2,379.7 million (31 December 2019: HK\$2,944.8 million) and corporate bonds of HK\$20,008.2 million (31 December 2019: HK\$18,564.9 million). All the corporate bonds and notes payable bear interest at fixed rates. Over 90% of bank and other borrowings bear interest at floating rates.

As at 31 December 2020, the Group had banking facilities amounting to HK\$46.5 billion, of which HK\$24.8 billion have not been utilised. The banking facilities are of 1 to 10 years term.

The Group's total equity amounted to HK\$57,124.0 million (31 December 2019: HK\$46,531.2 million).

The gearing ratio as defined as sum of bank and other borrowings, finance lease payables, notes payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 1.01 as at 31 December 2020 (31 December 2019: 1.06). The decrease in the gearing ratio as at 31 December 2020 was mainly due to the increase in cash and cash equivalents and total equity as a result of capital contributions into a subsidiary from Hangzhou Xiaoshan Ping An Cornerstone II Equity Investment Co., Ltd# (杭州蕭山平安基石貳號股權投資有限公司).

### 3.28 Capital expenditures

During the year, the Group's total capital expenditures were HK\$9,567.4 million (31 December 2019: HK\$12,501.1 million), of which HK\$881.4 million was paid for the acquisition of property, plant and equipment and intangible assets; HK\$7,833.1 million represented the construction and acquisition of water plants, HK\$852.9 million represented the consideration for acquisition of equity interests in subsidiaries and equity investments and capital injections in joint ventures and associates.

\* The balance as at 31 December 2020 and 2019 was included in lease liabilities.

# for identification purpose only



# MANAGEMENT DISCUSSION AND ANALYSIS

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group employed 19,763 employees. Total staff cost for the year ended 31 December 2020 was HK\$3,149,616,000 (year ended 31 December 2019: HK\$2,936,686,000). The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses, share options and share awards are awarded to certain employees according to the assessment of individual performance. On 24 April 2013, the Company had granted 400,000,000 share options at an exercise price of HK\$2.244 per share under a share option scheme adopted on 28 June 2011 for the Group's directors and employees (the "Scheme"). On 28 March 2014, the Company had granted the then independent non-executive director of the Company 2,000,000 share options at an exercise price of HK\$5.18 per share under the Scheme. 400,000 share options were exercised, no share option was lapsed or cancelled during the year ended 31 December 2020. As at 31 December 2020, the Company had 254,726,000 share options outstanding which were granted on 24 April 2013 and 2,000,000 share options outstanding which were granted on 28 March 2014. The total outstanding share options represented approximately 2.56% of the Company's ordinary shares in issue as at 31 December 2020. On 26 September 2019, the Company had granted 15,374,599 awarded shares to the eligible persons pursuant to the share award scheme. During the year ended 31 December 2020, 15,003,053 awarded shares were vested and 371,546 awarded shares were lapsed. As at 31 December 2020, no awarded shares to be vested were outstanding.

## SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year ended 31 December 2020, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CHARGES ON THE GROUP'S ASSETS

The secured bank and other borrowings, the corporate bonds and the notes payable of the Group as at 31 December 2020 are secured by:

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

Save as disclosed above, at 31 December 2020, the Group did not have any charges on the Group's assets.

## FOREIGN EXCHANGE EXPOSURE

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

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

### Board Composition

During the year and up to the date of this annual report, the Board comprises the following directors of the Company (“Director(s)”):

### Executive Directors

Mr. Li Yongcheng (*Chairman*)

Mr. E Meng (*Vice Chairman*) (*resigned on 3 January 2020*)

Mr. Jiang Xinhao

Mr. Zhou Min (*Chief Executive Officer*)

Mr. Li Haifeng

Mr. Zhang Tiefu

Mr. Ke Jian

Ms. Sha Ning (*appointed on 3 January 2020*)

Mr. Tung Woon Cheung Eric

Mr. Li Li

### Non-executive Director (the “NED”)

Mr. Zhao Feng (*appointed on 1 January 2021*)

### Independent Non-executive Directors (the “INEDs”)

Mr. Shea Chun Lok Quadrant

Mr. Zhang Gaobo

Mr. Guo Rui

Mr. Wang Kaijun

Dr. Lee Man Chun Raymond

One of the INEDs namely, Mr. Shea Chun Lok Quadrant, has the professional and accounting qualifications required by Rules Governing the Listing Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). There is no relationship among members of the Board in respect of financial, business, family or other material/relevant relationship. The biographical details of the current Directors are set out in the section headed “Directors and Senior Management” in this annual report.

# CORPORATE GOVERNANCE REPORT

## **BOARD OF DIRECTORS** *(Continued)*

### **Board Composition** *(Continued)*

All Directors are appointed with letters of appointment and subject to retirement by rotation and, being eligible, offer themselves for re-election at the annual general meetings in accordance with the Bye-laws of the Company (“Bye-laws”). Pursuant to Bye-law 99(B) of the Bye-laws, at each annual general meeting, one-third of the Directors (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement by rotation at least once every three years. Pursuant to Bye-law 91 of the Bye-laws, any Director appointed to fill a casual vacancy or as an addition to the Board is subject to re-election at the next following general meeting.

### **Role and Function**

The function of the Board is to formulate and give direction of the Group’s corporate strategy and business development. The Board has met regularly during the year to approve acquisition, material contracts, discloseable and/or connected transactions, director’s appointment or reappointment, significant policy and to monitor the financial performance of the Group in pursuit of its strategic goals. Day to day operation of the Company is delegated to the chief executive officer and the management of the Company.

Newly appointed Director will receive a comprehensive induction package covering the statutory and regulatory obligations of a director of a listed company. The Company continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company arranged trainings for Directors in the form of seminar and provision of training materials. Guidance notes and memorandum are issued to Directors where appropriate, to ensure awareness of best corporate governance practices.

According to the records maintained by the Company, the Directors who were held office during the year ended 31 December 2020 received the following training in respect of the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Listing Rules on continuous professional development during the year ended 31 December 2020.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS *(Continued)*

### Role and Function *(Continued)*

Name of Director	Corporate Governance/ Updates on Laws, Rules & Regulations		Accounting/Financial/ Management or Other Professional Skills	
	Read Materials	Attended Seminars/ Briefing	Read Materials	Attended Seminars/ Briefing
<b>Executive Directors</b>				
Mr. Li Yongcheng <i>(Chairman)</i>	✓	✓		
Mr. E Meng <i>(Vice Chairman)</i> <i>(resigned on 3 January 2020)</i>	–	–	–	–
Mr. Jiang Xinhao	✓	✓		
Mr. Zhou Min <i>(Chief Executive officer)</i>	✓	✓		
Mr. Li Haifeng	✓	✓		
Mr. Zhang Tiefu	✓	✓		
Mr. Ke Jian	✓			
Ms. Sha Ning <i>(appointed on 3 January 2020)</i>	✓	✓		
Mr. Tung Woon Cheung Eric	✓	✓	✓	✓
Mr. Li Li	✓	✓		
<b>INEDs</b>				
Mr. Shea Chun Lok Quadrant	✓	✓	✓	✓
Mr. Zhang Gaobo	✓	✓		
Mr. Guo Rui	✓	✓		
Mr. Wang Kaijun	✓	✓		
Dr. Lee Man Chun Raymond	✓			

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS *(Continued)*

### Board Meeting and General Meeting

The Company held four Board meetings and one general meeting during the financial year ended 31 December 2020. Directors present in those Board meetings were either in person or through electronic means of communication. Attendance records of the Board meetings and general meeting for the year ended 31 December 2020 are set out below:

Name of Director	Number of Board meeting attended/held	Number of general meeting attended/held
<b>Executive Directors</b>		
Mr. Li Yongcheng ( <i>Chairman</i> )	4/4	0/1
Mr. E Meng ( <i>Vice Chairman</i> ) ( <i>resigned on 3 January 2020</i> )	N/A <i>(Note)</i>	N/A <i>(Note)</i>
Mr. Jiang Xinhao	4/4	0/1
Mr. Zhou Min ( <i>Chief Executive Officer</i> )	4/4	0/1
Mr. Li Haifeng	4/4	0/1
Mr. Zhang Tiefu	4/4	0/1
Mr. Ke Jian	3/4	0/1
Ms. Sha Ning ( <i>appointed on 3 January 2020</i> )	4/4	0/1
Mr. Tung Woon Cheung Eric	4/4	1/1
Mr. Li Li	4/4	0/1
<b>INEDs</b>		
Mr. Shea Chun Lok Quadrant	3/4	1/1
Mr. Zhang Gaobo	4/4	1/1
Mr. Guo Rui	4/4	0/1
Mr. Wang Kaijun	4/4	0/1
Dr. Lee Man Chun Raymond	2/4	0/1

*Note:*

Mr. E Meng resigned as an executive director and vice chairman of the Company on 3 January 2020 before the four board meetings and the annual general meeting held.

To supplement the formal Board meetings, the Chairman held regular gatherings with Executive Directors to consider issues in an informal settings.

During the year, the Chairman held one meeting with the INEDs, without the Executive Directors present.

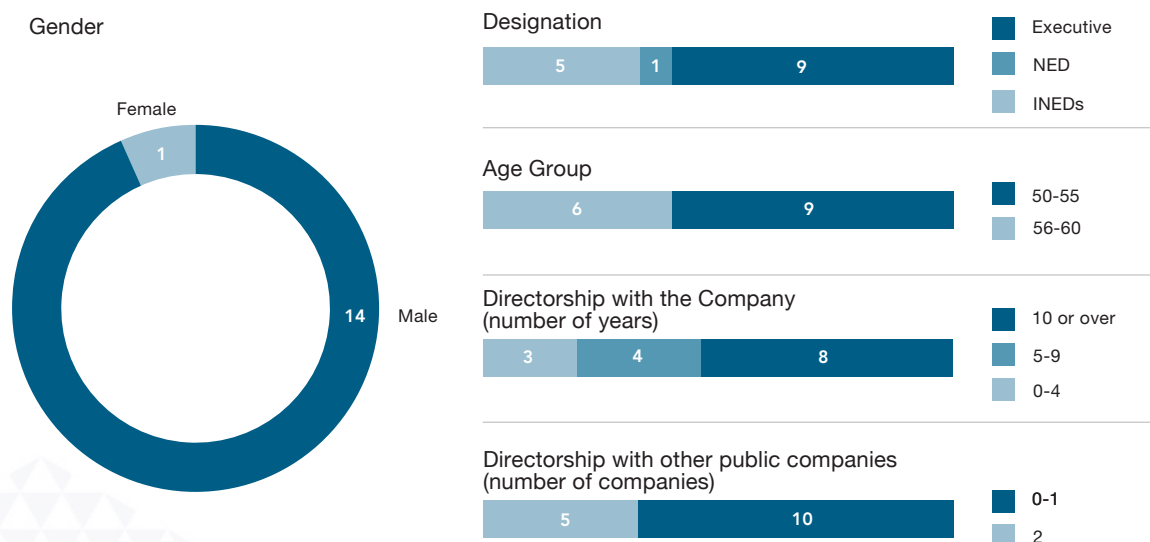
# CORPORATE GOVERNANCE REPORT

## BOARD DIVERSITY POLICY

The Board adopted a board diversity policy formulated by the Company in accordance with the requirements of the Listing Rules with effect from 1 September 2013. It aims to set out the approach to achieve diversity on the Board. The Board endeavours to ensure that it has a balance of skills, experience and diversity of perspectives to the requirements of the Group’s business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, 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 will review and monitor the implementation of board diversity on a regular basis or on the occasion of any vacancy arising from resignation or cessation as directors of the Company to ensure its effectiveness on determining the optional composition of the Board.

As at the date of this annual report, there are fifteen Directors with extensive experience and/or professional backgrounds to formulate and give direction of the Group’s corporate strategy and business development. The composition, experience and balance of skills on the Board are regularly reviewed by a core of members with longstanding and deep knowledge of the Group alongside new Directors who bring fresh perspectives and diverse experiences to the Board. The process for the nomination of Directors is led by the Nomination Committee that is set out in the section headed “Nomination Committee” in this corporate governance report. The following chart illustrates how the Company achieves diversity on the Board:



The name of the current Directors and their biographies (including their roles, function, terms of office, skills and experience) are set out in this annual report headed “Directors and Senior Management”.

# CORPORATE GOVERNANCE REPORT

## **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY**

The Company has arranged appropriate directors' and officers' liability insurance for its directors and officers covering the costs, losses, expenses and liabilities arising from the performance of their duties. The insurance policy covers legal action against its directors and officers to comply with the requirement of the CG Code. During the year, no claim was made against the directors and officers of the Company.

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

During the financial year ended 31 December 2020, the positions of the chairman and the chief executive officer of the Company were held separately. The chairman of the Company is Mr. Li Yongcheng and the chief executive officer is Mr. Zhou Min. The segregation of duties of the chairman and the chief executive officer ensures a clear distinction in the chairman's responsibility to provide leadership for the Board and the chief executive officer's responsibility to manage the Company's business. Their roles are clearly defined to ensure their respective independence. There is no relationship between the chairman and chief executive officer of the Board in respect of financial, business, family or other material/relevant relationship.

## **NON-EXECUTIVE DIRECTORS**

All NED (including INEDs) are appointed with specific term of three years.

Taking into account INEDs' ability to exercise independence of judgment in relation to the Company's affairs by offering or raising independent advices, the Board considers that the INEDs can provide independent advices on the Company's business strategies, results and management so as to safeguard the interests of the Company and its shareholders.

The Company has received, a written annual confirmation from each of the INEDs confirming his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent during his tenure.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct in respect of securities transactions of the Directors (the "Model Code"). Having made specific enquiry of all Directors, the Company has confirmed that all Directors have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions during the year under review.

## **BOARD COMMITTEES**

The Board has established three board committees to strengthen its functions and corporate governance practices, namely, audit committee (the "Audit Committee"), nomination committee (the "Nomination Committee") and remuneration committee (the "Remuneration Committee"). The Audit Committee, Nomination Committee and Remuneration Committee perform their specific roles in accordance with their respective written terms of reference.



# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(Continued)*

### Audit Committee

The Audit Committee is composed of three INEDs namely, Mr. Shea Chun Lok Quadrant (chairman of the Audit Committee), Mr. Zhang Gaobo and Mr. Guo Rui. The Audit Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules from time to time.

The Audit Committee is mainly responsible for considering all relationships between the Company and the auditing firm (including the provision of non-audit services), monitoring the integrity of the Company's financial statements and issues arising from the audit as well as the review of the Group's risk management and internal control systems whereby the Board had delegated such responsibility to Audit Committee.

In addition, the Audit Committee had been delegated the responsibility to perform the following including:

### *Corporate Governance Duties*

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
2. to review and monitor the training and continuous professional development of Directors and senior management;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
5. to review the Company's compliance with the CG Code and disclosure in the corporate governance report;

### *Sustainable Development Duties*

6. to identify environmental, social and governance issues that are relevant and significant to the operations of the Company and/or substantively affect shareholders and other key stakeholders, to ensure compliance with the relevant legal and regulatory requirements;
7. to review, formulate and adopt management approach, strategies, priorities, goals, policies and structure of the Company for sustainable development, make relevant recommendations to the Board and implement the policies laid down by the Board;

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(Continued)*

### Audit Committee *(Continued)*

#### Sustainable Development Duties *(Continued)*

8. to supervise the development and implementation of management approach, priorities, strategies, policies and measures of sustainable development for the Company, including any policies related to public concerns that may affect the business, operation, brand or reputation of the Company;
9. to monitor, review and evaluate:
  - (i) the effectiveness and adequacy of actions taken by the Company to implement management approach, strategies, priorities, measures, goals and policies for sustainable development;
  - (ii) the performance on sustainable development of the Company by adopting the appropriate international or national standards or guidelines (if applicable) as key performance indicators; and
  - (iii) an effective operation of the risk management and internal control systems set up and achieved by the Company regarding risks assessment on sustainable development;
10. to review and evaluate the adequacy and effectiveness of the structure related to sustainability matters at the group level;
11. to review, evaluate (where applicable) and report to the Board the risks and opportunities related to sustainable development of the Company;
12. to review and ensure that the Company establishes appropriate and effective sustainable development risk management and internal control systems;
13. to evaluate and review the effectiveness of the policies, practices and performance in relation to the Company's key environmental, social and governance matters, and report to the Board and provide advice once a year or when necessary;
14. to identify and engage stakeholders to understand and respond to their views by appropriate means;
15. to suggest improvement strategies for the Company's performance of the sustainable performance; and
16. to review the disclosure on report of the Company on the performance of sustainable development matters and make recommendations to the Board.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(Continued)*

### Audit Committee *(Continued)*

Summary of work done during the year: reviewed the financial statements for the period from 1 January 2020 to 30 June 2020 and for the year ended 31 December 2020, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company, the risk management and internal control systems and the Company's compliance with the CG Code and disclosure in the corporate governance report.

The Audit Committee held three meetings during the financial year ended 31 December 2020. Details of attendance of each Audit Committee members are as follows:

<b>Name of Audit Committee members</b>	<b>Number of Audit Committee meetings attended/held</b>
Mr. Shea Chun Lok Quadrant <i>(Chairman of Audit Committee)</i>	3/3
Mr. Zhang Gaobo	3/3
Mr. Guo Rui	3/3

### Nomination Committee

The Nomination Committee comprises one executive Director namely, Mr. Li Yongcheng (chairman of the Nomination Committee) and two INEDs namely, Mr. Zhang Gaobo and Mr. Guo Rui.

All new appointments and re-appointments to the Board are subject to the approval of the Board. The Nomination Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules from time to time.

The major responsibilities of the Nomination Committee include:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
2. to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(Continued)*

### Nomination Committee *(Continued)*

3. to assess the independence of the INEDs; and
4. to make recommendations 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 officer.

Summary of work done during the year: reviewed and evaluated the structure, size and composition (including the skills, knowledge and experience) of the Board to complement the Company's corporate strategy, made recommendation to the Board on new appointments, reviewed and recommended the re-appointment of the retiring Directors at the general meetings of the Company and assessed independence of the INEDs.

As the Company recognises that having a board diversity policy can enhance the quality of its performance and is an essential element in maintaining the Company's competitive advantage, the Board adopted a board diversity policy in compliance with the Listing Rules.

The Nomination Committee has adopted a nomination policy (the "Nomination Policy") which sets out the selection criteria and procedures of appointment and re-appointment of a Director. In evaluating and selecting candidate(s) for directorship, the Nomination Committee shall follow the criteria of nomination and appointment of the directors set out in Nomination Policy, including but not limited to the integrity, skills and expertise, professional and educational backgrounds; potential time commitment for the Board and/or committee responsibilities; and the elements of the board diversity policy of the Company. The Nomination Committee shall make recommendation to the Board to appoint the appropriate person among the candidates nominated for directorship. Suitable candidate(s) shall be appointed as director(s) by the Company in accordance with the Bye-laws and the Listing Rules.

During the year, no Nomination Committee meeting was held but by way of three unanimous written resolutions, the Nomination Committee had reviewed nomination related matters.

### Remuneration Committee

The Remuneration Committee currently comprises two INEDs namely, Mr. Zhang Gaobo (chairman of the Remuneration Committee) and Mr. Guo Rui.

The Remuneration Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules from time to time. The Remuneration Committee adopted the operation model where it performs an advisory role to the Board and to make recommendations to the Board on the remuneration packages of Directors and senior management with the Board retaining the final authority to approve Directors' and senior management remuneration. It is the Company's policy to offer remuneration packages which are competitive and sufficient to retain such individuals and no director is involved in decision of his own remuneration.

# CORPORATE GOVERNANCE REPORT

## **BOARD COMMITTEES** *(Continued)*

### **Remuneration Committee** *(Continued)*

The Group's policy and structure for employees' remuneration proposals were with reference to the Group's corporate goals, prevailing market rate and duties and responsibilities with the Group.

Summary of work done during the year: reviewed the Group's policy and structure for employees' remuneration proposals with reference to the Group's corporate goals, prevailing market rate and duties and responsibilities with the Group and made recommendations to the Board regarding the Share Award Scheme adopted in December 2018.

During the year, no Remuneration Committee meeting was held but by way of two unanimous written resolutions, the Remuneration Committee had reviewed remuneration related matters.

## **AUDITORS' REMUNERATION**

The Audit Committee of the Company is responsible for considering the appointment of the external auditors and reviewing the non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, external auditors' remuneration for audit services was approximately HK\$12.0 million and for non-audit service assignments was approximately HK\$3.8 million, which represented agreed-upon procedures engagement such as for the Group's interim financial report, taxation advisory and compliance services. The Audit Committee had satisfied that the non-audit services in 2020 did not affect the independence of the external auditors.

## **RISK MANAGEMENT AND INTERNAL CONTROL**

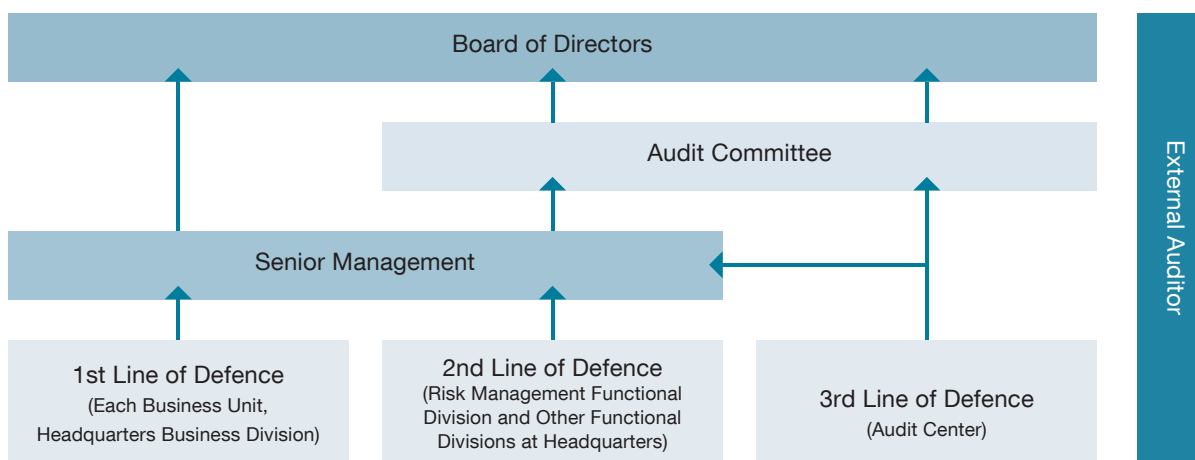
The Board has the overall responsibility for evaluating and determining the nature and extent of the risks that may be exposed to the Group and ensuring that the Group maintains sound and effective risk management and internal control systems in order to safeguard the interest of shareholding and the Group's assets. The Board had delegated such responsibility to the Audit Committee which shall oversee management in designing, implementing and monitoring the risk management and internal control systems.

The Board has been provided with sufficient explanation and necessary information enabling it to make an informed assessment of financial and other information put before the Board for approval.

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

The risk management framework of the Group is designed of “Three Layers + Three Lines of Defence” model as shown below:



### First Line of Defence

Each business unit and headquarters business division of the Group, as a risk owner, identifies, evaluates and monitors its own risk.

### Second Line of Defence

The risk management functional division and other functional divisions at headquarters have set up a risk management mechanism regarding corporate objectives so as to identify, control, acknowledge and manage the risks faced by the Group. In particular, the Group applies strict guidelines and procedures that monitor and control each investing unit for its investment, with the aim to mitigate risk exposure and external impacts and ensure that the risk management process is in line with the relevant objective.

### Third Line of Defence

The audit center carries out an independent review of key business process and controls in accordance with its normal procedures. Its recommendations and remedial measures will be taken to rectify the deficiencies accordingly.

# CORPORATE GOVERNANCE REPORT

## **RISK MANAGEMENT AND INTERNAL CONTROL** *(Continued)*

### **Third Line of Defence** *(Continued)*

The Group has made reference to the Enterprise Risk Management-Integrated Framework set down by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and adopted it as its own framework, which covers risk identification, risk assessment, risk implementation treatment plan as well as risk investigation and reporting.

Any internal audit findings and control deficiencies were communicated with the relevant functional division and business units of the Group. Relevant control activities were enhanced and post-audit reviews were conducted as and when appropriate. Remedial activities were taken by the Group regarding findings and deficiencies for prior year.

Policy and procedures were laid down to cover issues including project development, tendering, financial reporting, human resources and computer systems and to define clearly the line of authority for each employee. As every functional division and business unit of the Group was required to undertake a series of self-assessment in accordance with the Group's policy and procedures, the audit center was not aware of any internal withholding of internal control deficiency of the Group during the year under review.

The risk management functional division assessed the potential risk exposure of the Group by means of interview and questionnaire and also arranged a series of activities such as key risk indicators monitoring and workshops to discuss with all levels of staff the importance of risk management and internal control systems, share risk perception and enhance the effectiveness of the risk management function. Appropriate risk management activities were carried out and implemented during the year. Every division and business unit of the Group was invited to discuss such potential risks which might affect their ability to achieve the Group's financial, operational, compliance control objectives and had identified three significant risks affecting the corporate objectives, namely policy and regulatory risk, market competition risk and reputational risk.

During the year, the risk management functional division has presented updated reports to the Audit Committee on implementation of risk management and the effectiveness of the risk management and internal control systems of the Group. The Audit Committee closely monitored and reported to the Board annually such effectiveness on an ongoing basis.

During the year, the audit center performed the annual audit by adopting a risk-based approach and covered the areas of internal environment, risk assessment, control activities, information and communications as well as internal control.

For the year ended 31 December 2020, both the Audit Committee and the Board were not aware of any material internal control deficiencies and were satisfied that the risk management and internal control systems of the Group are effective and adequate.

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

### **Third Line of Defence** *(Continued)*

During the year, the Board believes that there is an adequacy of resources in term of staff qualifications and experience, training programmes and budget of the Group's internal audit function.

The Group has set up a whistleblower policy and a set of comprehensive procedures to the employees, business partners and other concerned parties to raises concerns, in confidence, to the Board about possible improprieties within the Group. The identity of the whistleblower will be treated with the strictest confidential.

The Group has set up the inside information policy and procedure for the handling and dissemination of inside information. The inside information policy mainly focuses on the obligations of the Group, external communication guidelines and compliance and reporting procedures. The Group shall take all reasonable measures from time to time to ensure that proper safeguards in existence to prevent any breach of disclosure requirement.

The Group has adopted appropriate measures to review the implementation of the Group's existing continuing connected transactions. During the year, the relevant companies had monitored strictly pursuant to the pricing policies and terms of the continuing connected transactions in the actual course of business operation and did not exceed those relevant annual caps as disclosed.

## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the accounts for the year ended 31 December 2020, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

The responsibility of Ernst & Young, the Company's external auditors, is set out on pages 90 to 96 of the "Independent Auditors' Report" in this annual report.

## COMPANY SECRETARY

Mr. Tung Woon Cheung Eric, as the executive Director, is also the company secretary of the Company. During the year ended 31 December 2020, Mr. Tung has complied with the relevant professional training required under Rule 3.29 of the Listing Rules. The biographical details of Mr. Tung is set out in the section headed "Directors and Senior Management" on page 52 in this annual report.



# CORPORATE GOVERNANCE REPORT

## DIVIDEND POLICY

The Company adopted a dividend policy. It aims to provide shareholders of the Company with stable and sustainable returns.

The recommendation of the payment of any dividend/distribution is subject to the absolute discretion of the Board, and any declaration of final dividend/distribution will be subject to the approval of the shareholders of the Company. Any payment of the dividend/distribution by the Company is also subject to any restrictions under the Laws of Bermuda, the Bye-Laws and any applicable laws, rules and regulations.

The declaration and payment of any dividend/distribution shall be determined at the sole discretion of the Board having taken into account, inter alia, the Group's financial performance, retained earnings and distributable reserves of the Group, the Group's working capital requirements and future expansion plans, the Group's liquidity position, general economic conditions, business cycle of the Group's business, contractual restrictions of the Group, the shareholders' and the investors' expectation and any other factors that the Board deems relevant.

## SHAREHOLDERS' RIGHTS

### Convening a special general meeting by shareholders ("SGM")

The Board shall on the written requisition of any two or more shareholders of the Company who hold at the date of the deposit of the requisition in aggregate not less than one-tenth of such of the paid-up capital of the Company that carries the right of voting at the SGM, forthwith proceed duly to convene the SGM ("Requisition"). The Requisition, which may consist of several documents in like form each signed by one or more requisitionists, must state the objects of the SGM and deposited at the Company's head office and principal place of business in Hong Kong.

If the Board does not within 21 days from the date of the deposit of the Requisition proceed duly to convene a SGM, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM in the same manner, as nearly as possible, as that in which SGM may be convened by the Board, but any meeting so convened shall not be held after the expiration of three months from the aforesaid date of the deposit of the Requisition.

All reasonable expenses incurred by the requisitionists as a result of the failure of the Board to convene such a SGM shall be reimbursed to them by the Company.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS *(Continued)*

### Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries to the Board for the attention of the Secretary of the Company ("Company Secretary") via email (mailbox@bewg.com.hk) or directed to the Company's head office and principal place of business in Hong Kong at Rooms 6706-07, 67th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. Shareholders may also make enquiries with the Board at the general meetings of the Company.

### Procedures for putting forward proposals at shareholders' meetings

If a shareholder of the Company wishes to put forward proposals at the annual general meeting (the "AGM")/SGM which is to be held, such shareholder, who is duly qualified to attend and vote at such general meeting, shall follow the procedures as set out below which are required in accordance with the Bye-laws and the Listing Rules.

1. A shareholder shall validly serve on the Company Secretary his/her written and signed notice of intention to propose a resolution at the AGM/SGM.
2. The foregoing documents shall be lodged at the Company's head office and principal place of business in Hong Kong at Rooms 6706-07, 67th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
3. The period for lodgment of the foregoing notices required under the Bye-Laws shall commence on the day after the despatch of the notice of the AGM/SGM and end no later than 7 days prior to the date of the AGM/SGM and such period shall be at least 7 days.
4. If the foregoing notices shall be received less than 10 business days prior to the date of such AGM/SGM, the Company needs to consider the adjournment of such AGM/SGM in order to allow shareholders of the Company 14 days' notice (the notice period must include 10 business days) of the proposal.
5. The foregoing notice of intention to propose a resolution will be verified by the Company's branch share registrar in Hong Kong (the "Branch Share Registrar"). Upon confirmation from the Branch Share Registrar, the Company Secretary will present to the board of Directors for their approval on the inclusion of the proposed resolutions in the AGM/SGM.

Shareholders may take reference to the procedures made available under headed the "Investor Relations" and "Corporate Governance" section ("Procedures for Shareholders to Propose a Person for Election as a Director") of the Company's website.

# CORPORATE GOVERNANCE REPORT

## INVESTOR RELATIONS

### Communication with shareholders

The Board believes that effective and proper investor relations play an important role in creating shareholders' value, enhancing the corporate transparency as well as establishing market confidence.

During the financial year ended 31 December 2020, due to the influence of the outbreak of novel coronavirus disease pandemic ("COVID-19 pandemic"), the Company has strictly abided by the epidemic prevention requirements from local governments in China and proactively taken the following measures to cope with the negative impacts of the COVID-19 pandemic, in order to ensure effective shareholders' communication and enhance our transparency:

1. maintained timely and effective contacts with research analysts, institutional shareholders and potential investors through various channels including but not limited to meetings such as virtual-conference meeting, conference-calls and emails; and
2. updated the Company's latest news and developments regularly through the 'Investor Relations' section of the Company's official website and enterprise social media, in order to spread over all kinds of investors especially for medium and small investors.

The above measures will provide them with the access to the latest development of the Group as well as the water industry.

### Constitutional documents

There is no change on the constitutional documents of the Company since the amendments to the Bye-laws made on 1 June 2017. A consolidated version of the Memorandum of Association and Bye-laws is available on both the websites of the Company and the Stock Exchange.

## CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2020, in the opinion of the Board, the Company complied with all code provisions set out in the CG Code, with deviation mentioned below.

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

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Li Yongcheng** (“Mr. Li”), aged 59, was appointed as the chairman and an executive director of the Company on 29 October 2014. Mr. Li is also the chairman of nomination committee of the Company. He is currently vice chairman and executive deputy general manager of Beijing Enterprises Group Company Limited. He is an executive director and chairman of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd.. Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master’s degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li possesses extensive experience and professional expertise in public utilities industry, and also has plenty of experience in enterprise operations and capital operations.

**Mr. Jiang Xinhao** (“Mr. Jiang”), aged 56, was appointed as an executive director of the Company in June 2008. Mr. Jiang serves as a vice general manager of Beijing Enterprises Group Company Limited, an executive director and vice chairman of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange. Mr. Jiang is also a non-executive director of China Gas Holdings Limited (Stock Code: 384), a company listed on the main board of the Stock Exchange. Mr. Jiang was an executive director of Beijing Properties (Holdings) Limited (Stock Code: 925), a company listed on the main board of the Stock Exchange between 2011 and 2016. Mr. Jiang is a senior economist and graduated from Fudan University in 1987 with a bachelor’s degree in law, and then in 1992 with a master’s degree in law from Fudan University. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a deputy general manager of Jingtai Finance Company in Hong Kong, and subsequently a director and vice president of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a director and the chief executive officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a manager of the investment development department of Beijing Holdings Limited and a general manager of Beijing BHL Investment Center between May 2000 and February 2005. Mr. Jiang has many years of experience in economics, finance and corporate management.

**Mr. Zhou Min** (“Mr. Zhou”), aged 57, was appointed as an executive director of the Company in August 2008 and the chief executive officer of the Company on 30 March 2016. Mr. Zhou is also the chairman and a non-executive director of Beijing Enterprises Urban Resources Group Limited (Stock Code: 3718), a company listed on the main board of the Stock Exchange. Mr. Zhou graduated with an EMBA from the Tsinghua University and is the vice chairman of Mianyang Zhejiang Chamber of Commerce (綿陽市浙江商會). Mr. Zhou previously worked in the People’s Bank of China, Yongkang Branch of Zhejiang Province (浙江省人民銀行永康支行), the Industrial and Commercial Bank of China, Yongkang Branch of Zhejiang Province (浙江省工商銀行永康支行), and was the chairman of Beijing Jingsheng Investment Company Limited (北京景盛投資有限公司). Mr. Zhou is now the chairman of BEWG Environmental Group Co., Ltd.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS *(Continued)*

### Executive Directors *(Continued)*

**Mr. Li Haifeng**, formerly known as 李海峰, aged 50, was appointed as an executive director and a vice president of the Company in August 2008. He is also a non-executive director of Beijing Enterprises Urban Resources Group Limited (Stock Code: 3718), a company listed on the main board of the Stock Exchange. He graduated with a bachelor's degree in Laws from the Peking University. He was an assistant to president of Founder Group (方正集團) and the executive vice president of Founder Xintiandi Software Technology Co. Ltd. (方正新天地軟體科技有限公司). He is currently the chairman, an executive director and the chief executive officer of Carry Wealth Holdings Limited (Stock Code: 643), a company listed on main board of the Stock Exchange.

**Mr. Zhang Tiefu**, aged 58, was appointed as an executive director and a vice president of the Company in April 2009. He graduated from Jilin Industrial Institute with a bachelor's degree of engineering in 1983. He further studied business administration in the University of International Business and Economics in 1998. He has been awarded the titles of senior engineer and senior international finance manager. He served as the senior manager in China Nation Printing Materials Corporation (中國印刷物資總公司) in 1986. He joined Beijing Enterprises Holdings Limited as manager in 2001, and is concurrently acting the director and a general manager of Beijing Bei Kong Water Production Co., Ltd. (北京北控制水有限公司) and a director of Beijing Yanjing Beer Co., Ltd. (北京燕京啤酒有限公司). He has extensive experiences in economics, market development and corporate management.

**Mr. Ke Jian** ("Mr. Ke"), aged 52, was appointed as an executive director of the Company in June 2011 and is a vice president of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange and the chairman, chief executive officer and an executive director of Beijing Enterprises Environment Group Limited (Stock Code: 154), a company listed on the main board of the Stock Exchange. Mr. Ke is a PRC chief senior accountant, certified tax agent and senior international finance manager. Mr. Ke received a bachelor's degree in economics from Beijing College of Finance and Commerce and a MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration.

**Ms. Sha Ning** ("Ms. Sha"), aged 50, was appointed as an executive director of the Company in January 2020 and is a vice president of Beijing Enterprises Holdings Limited (the "BEHL") (Stock Code: 392), a company listed on the main board of the Stock Exchange and also serves as an executive director and a vice president of Beijing Enterprises Environment Group Limited (Stock Code: 154), a company listed on the main board of the Stock Exchange. Ms. Sha graduated from the Business and Economics Faculty of Heilongjiang Institute of Commerce in 1992, and studied Accounting in Beijing School of Business and Capital University of Economics and Business. She obtained an EMBA degree from The Hong Kong University of Science and Technology, and was granted the title of PRC Senior Accountant. Ms. Sha joined BEHL since 2001 and has accumulated extensive experience in financial management.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS *(Continued)*

### Executive Directors *(Continued)*

**Mr. Tung Woon Cheung Eric** (“Mr. Tung”), aged 50, was appointed as an executive director of the Company in August 2011. Mr. Tung is the chief financial officer and company secretary of the Company. Mr. Tung is also the assistant president and general manager of the finance department of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange, the company secretary of Biosino Bio-Technology and Science Incorporation\* (Stock Code: 8247), a company listed on GEM of the Stock Exchange and an independent non-executive director of South China Financial Holdings Limited (Stock Code: 619) and GR Properties Limited (Stock Code: 108), both of which are listed on the main board of the Stock Exchange. Mr. Tung graduated from York University, Toronto, Canada with a bachelor’s honours degree in administrative studies. He is a Hong Kong Certified Public Accountant and a U.S. licensed practice Certified Public Accountant.

**Mr. Li Li**, aged 55, was appointed as an executive director of the Company in February 2014 and the chief operating officer of the Company on 30 March 2016. He is a Senior Engineer and qualified Senior Project Manager. Mr. Li Li joined the Company in October 2010. Mr. Li Li is also a non-executive director of Beijing Enterprises Urban Resources Group Limited (Stock Code: 3718), a company listed on the main board of the Stock Exchange. Mr. Li Li graduated from Xian Jiaotong University in mechanical engineering and PhD in engineering at School of Environment, Tsinghua University. Prior to joining the Company, Mr. Li Li was then a senior engineer, a technical quality director and vice president of the First Design & Research Institute (now known as First Design and Research Institute M1 China Co., Ltd.). Mr. Li Li served as various key positions of 北京桑德環保集團有限公司 (Beijing Sound Environmental Group Company Limited\*) from 2001 to 2010. He has extensive experience in investment, construction and operation in water industry.

### Non-executive Director

**Mr. Zhao Feng** (“Mr. Zhao”), aged 50, was appointed as a non-executive director of the Company in January 2021. Mr. Zhao is the chairman of Yangtze Ecology and Environment Co. Ltd. and also an executive director of Yangtze Ecology and Environment (HK) Investment Limited. Mr. Zhao holds a master’s degree in business administration from Chongqing University and is a senior economist. Mr. Zhao possesses extensive experience in production, management and marketing in the electricity industry. He was an electrical control engineer and an officer of the human resources department (organization department) of Gezhouba Hydropower Generation Plant, an officer of Three Gorges Hydropower Generation Plant, a manager of general manager office and a manager of the marketing department of China Yangtze Power Co., Ltd.. He served as the officer of the marketing department of China Three Gorges Corporation since April 2011. Mr. Zhao has experience as senior executives of large-scale hydropower listed companies and state-owned enterprises.

\* For identification purpose only

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS *(Continued)*

### Independent non-executive Directors

**Mr. Shea Chun Lok Quadrant** (“Mr. Shea”), alias Martin, formerly known as Shea Chi Lap, Quadrant, aged 54, was appointed as an independent non-executive Director of the Company in April 2002. Mr. Shea is also the chairman of audit committee. Mr. Shea is currently an executive director, the chief financial officer and company secretary of Asia Allied Infrastructure Holdings Limited (Stock Code: 711), a company listed on the main board of the Stock Exchange. He is also an independent non-executive director of Hi-Level Technology Holdings Limited (Stock Code: 8113), a company listed on GEM of the Stock Exchange. Mr. Shea graduated from Monash University of Australia with a bachelor’s degree in Business and later completed a postgraduate program of Public Finance (Taxation) and obtained a master’s degree in Economics from Jinan University, China and a master of Laws degree from Renmin University of China. He is also a fellow member of CPA Australia, a member of Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong, The Chartered Institute of Management Accountants of the United Kingdom and Institute of Singapore Chartered Accountants and a Chartered Global Management Accountant. Mr. Shea is a Chartered Tax Adviser of Hong Kong and has obtained a Certificate of Pass in Practice Training Examination for Hong Kong Certified Tax Advisers Serving in Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Qianhai, Shenzhen jointly issued by Shenzhen Municipal Office of the State Administration of Taxation and Shenzhen Local Taxation Bureau. Mr. Shea has substantial experience in accounting and finance in listed companies and worked as a qualified accountant and company secretary in various companies listed on the main board of the Stock Exchange over the years.

**Mr. Zhang Gaobo** (“Mr. Zhang”), aged 56, was appointed as an independent non-executive director of the Company in May 2008. He is also a member of each of the audit committee and the nomination committee and chairman of the remuneration committee of the Company. He obtained a bachelor’s degree in science from Henan University in 1985 and later graduated from Peking University with a master’s degree in Economics in 1988. From 1988 to 1991, he worked in Hainan Provincial Government and PBOC Hainan Branch and as the chairman of Hainan Stock Exchange Centre. Since 1993, he has been a founding partner and chief executive of Oriental Patron Financial Group and is responsible for its overall general management and business development. Mr. Zhang was an executive director of Wealthking Investments Limited (formerly known as OP Financial Limited) (Stock Code: 1140), a company listed on the main board of the Stock Exchange from February 2003 to December 2020 and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange from June 2007 to June 2017. He has taken up the role to serve as the vice-president of Finance Center for South-South Cooperation Limited, a non-profit international organization in Special Consultative Status with ECOSOC of the United Nations, established for the promotion of South South Cooperation since April 2014.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS *(Continued)*

### Independent non-executive Directors *(Continued)*

**Mr. Guo Rui** (“Mr. Guo”), aged 53, was appointed as an independent non-executive director of the Company in May 2008. He is also a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Guo is the managing director of 北京明銳恒豐管理諮詢有限公司 Beijing MingRui Hengfeng Management & Consulting Co. Ltd., an investment management organisation that invests in real estate, clean energy, healthcare and pharmaceuticals, biotechnology, financial institutes, mining and manufacturing sectors. Mr. Guo was a former senior consultant of Arthur Andersen LLC from 1999 to 2001. Mr. Guo holds a bachelor’s degree of computer science (or engineering) from Peking University and a master’s degree of computer engineering from Northwestern University, U.S.A.

**Mr. Wang Kaijun** (“Mr. Wang”), aged 60, was appointed as an independent non-executive director of the Company in August 2008. Mr. Wang holds a doctor’s degree from the Environmental Technology Department of the Wageningen Agricultural University in the Netherlands. Mr. Wang was previously appointed as the chief engineer of Beijing Municipal Research Institute of Environmental Protection (北京市環境保護科學研究院). He is now working as a professor in School of Environment, Tsinghua University (清華大學環境學院), a member of Committee of Science and Technology in Ministry of Environmental Protection and the director of State Environment Protection Engineering Center for Technology Management and Evaluation. Mr. Wang has been engaged and experienced in the relevant research, development and industrialization of sewage pollution control technologies and the evaluation of policy-making over the years. Mr. Wang has unique and innovative opinions on the academic study and has made many achievements and demonstration cases on the hydrolysis aerobic process theory, aerobic and anaerobic reactor theory and design, development and application of sewage sludge treatment and disposal technologies, planning and management of state environment protection administration system. Mr. Wang also developed the research fields on municipal sewage hydrolysis-aerobic treatment process, high performance anaerobic reactors, sewage sludge treatment and disposal, livestock manure treatment and rural environmental protection in mainland China. Mr. Wang is currently a non-executive director of BECE Legend Group Co., Ltd (formerly known as Sichuan Jinyu Automobile City (Group) Co., Ltd.) (Stock Code: 000803) and an independent non-executive director of Beijing OriginWater Technology Co., Ltd. (Stock Code: 300070). Both BECE Legend Group Co., Ltd and Beijing OriginWater Technology Co., Ltd. are listed on Shenzhen Stock Exchange.

**Dr. Lee Man Chun Raymond** (“Dr. Lee”), aged 50, *CPPCC National Committee, SBS JP*, was appointed as an independent non-executive director of the Company in June 2017. He was conferred the Honorary Degree of Doctor of Laws in 2014 and holds a bachelor’s degree in Applied Science from the University of British Columbia in Canada. Dr. Lee is the chairman of Lee & Man Paper Manufacturing Limited (Stock Code: 2314), a company listed on main board of the Stock Exchange. From 2004 to 2017, Dr. Lee was an independent non-executive director of the listed company, Bossini International Holdings Limited (Stock Code: 592), a company listed on main board of the Stock Exchange. Dr. Lee was awarded the “Young Industrialist Award of Hong Kong 2002” and received an award for “2003 Hong Kong Ten Outstanding Young Persons Selection Awardees”. He is also the chairman of Raymond Lee Charitable Foundation since 2017. Since December 2013, Dr. Lee was appointed as the member of Standing Committee, All-China Federation of Returned Overseas. Dr. Lee is currently appointed as president of Centum Charitas Foundation. Dr. Lee has over 25 years of operational experience in paper manufacturing and is experienced in professional formula of paper making and product development.



# REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2020.

## PRINCIPAL ACTIVITIES

The Company is an investment company and the holding company of the Group. The Group is principally engaged in construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the PRC, Malaysia, Australia and the Republic of Botswana; provision of sewage and reclaimed water treatment services in the PRC, the Republic of Singapore, the Portuguese Republic (“Portugal”) and Australia; distribution and sale of piped water in the PRC, Portugal and Australia; provision of technical and consultancy services and sale of machineries related to sewage treatment and construction services for comprehensive renovation projects in the PRC and Australia; and licensing of technical know-how related to sewage treatment in the PRC. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements.

## RESULTS AND DISTRIBUTIONS

The Group’s profit for the year ended 31 December 2020 and the Group’s financial position at that date are set out in the consolidated financial statements on pages 97 to 258. An interim distribution of HK8.4 cents per ordinary share was paid on 19 October 2020. The Board recommended to make final distribution of HK7.8 cents per ordinary share out of the contributed surplus of the Company to shareholders of the Company for their continuous supports to the Company. This recommendation is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. The final distribution will be paid on or around Wednesday, 30 June 2021.

## CLOSURES OF REGISTER OF MEMBERS

### For Annual General Meeting

The register of members will be closed from Friday, 4 June 2021 to Wednesday, 9 June 2021 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Wednesday, 9 June 2021, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 3 June 2021.

### For Entitlement to Proposed Final Distribution

The register of members will be closed from Wednesday, 16 June 2021 to Friday, 18 June 2021 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final distribution, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 15 June 2021. Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the proposed final distribution will be paid on or around Wednesday, 30 June 2021.

# REPORT OF THE DIRECTORS

## BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the chairman's statement on pages 4 to 8 of this annual report. Description of possible risks and uncertainties that the Group may be facing, can be found in the chairman's statement on page 7. The financial risk management objectives and policies of the Group can be found in note 54 to the financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided on pages 9 to 32 of the Group's management discussion and analysis. In addition, discussions on the Group's environmental policies, relationship with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the chairman's statement on pages 5 to 8 and the corporate governance report on pages 33 to 49 of this annual report.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual reports of the Company for the financial years ended 31 December 2020, 2019, 2018, 2017, 2016 is set out on pages 259 to 260. This summary does not form part of the audited financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group together accounted for 16% of the Group's revenue and aggregate purchases attributable to the Group's five largest suppliers accounted for 15% of the Group's total purchases for the year. Sales to the largest customer accounted for 7% of the Group's revenue and purchases from the largest supplier accounted for 5% of the Group's purchases.

During the year, none of the Directors, an associate of the Director or a shareholder of the Company which (to the best knowledge of the Directors) owns more than 5% of the Company's share capital, had a beneficial interest in any of the Group's five largest customers or suppliers.

## SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Details of the Company's principal subsidiaries, joint ventures and associates at 31 December 2020 are set out in notes 1, 20 and 21 to the financial statements, respectively.

## SHARE CAPITAL AND SHARE ISSUED

Details of movements in the share capital of the Company during the year, together with the reasons therefor, are set out in note 31 to the financial statements. Ordinary shares of the Company were issued during the year on exercises of share options of the Company.

# REPORT OF THE DIRECTORS

## DEBENTURE ISSUED

As at 31 December 2020, the outstanding principal amounts of bonds guaranteed by the Company and issued by a wholly-owned subsidiary of the Company was RMB253,401,000, with maturity date in April 2021 and interest rate at 3.60% per annum.

As at 31 December 2020, the outstanding principal amounts of bonds issued by the Company was RMB2,200,000,000, with maturity date in July 2023 and interest rate at 3.33% per annum. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company.

As at 31 December 2020, the outstanding principal amounts of bonds issued by the Company was RMB700,000,000, with maturity date in August 2024 and interest rate at 3.25% per annum. Three years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company.

As at 31 December 2020, the outstanding principal amounts of corporate notes guaranteed by the Company and issued by a subsidiary of the Company was RMB2,000,000,000, with maturity date in November 2022 and fixed interest rates at 6.15% per annum.

As at 31 December 2020, the outstanding principal amounts of extendable bonds guaranteed by the Company and issued by a wholly-owned subsidiary of the Company was RMB2,800,000,000 with fixed interest rate of 3.68% per annum to be payable for first five years. After the first five years, the wholly-owned subsidiary of the Company shall have a right to adjust the coupon rate for a cycle of every five years, unless and until the wholly-owned subsidiary of the Company chooses to repay the outstanding principal amount with accrued interests in full. The bond holders shall not be entitled to sell back the bonds to the wholly-owned subsidiary of the Company.

As at 31 December 2020, the outstanding principal amounts of extendable notes issued by a wholly-owned subsidiary of the Company was RMB2,800,000,000 with fixed interest rate of 3.70% per annum to be payable for the first five years. After the first five years, the wholly-owned subsidiary of the Company shall have a right to adjust the coupon rate for a cycle of every five years, unless and until the wholly-owned subsidiary of the Company chooses to repay the outstanding principal amount with accrued interests in full. The note holders shall not be entitled to sell back the notes to the wholly-owned subsidiary of the Company.

# REPORT OF THE DIRECTORS

## DEBENTURE ISSUED *(Continued)*

As at 31 December 2020, the outstanding principal amounts of Islamic medium-term notes issued by a wholly-owned subsidiary of the Company were MYR90,000,000, MYR80,000,000, MYR80,000,000 and MYR30,000,000 with maturity dates in July 2021, July 2022, July 2023 and July 2024 and fixed interest rates at 5.20%, 5.30%, 5.40% and 5.50% per annum, respectively.

As at 31 December 2020, the outstanding principal amounts of bonds guaranteed by the Company and issued by a wholly-owned subsidiary of the Company was US\$500,000,000, with maturity date in May 2023 and fixed interest rate at 4.95% per annum.

As at 31 December 2020, the outstanding principal amounts of medium-term notes issued by the Company were RMB2,000,000,000 and RMB1,000,000,000, with maturity dates in May 2023 and May 2025 and interest rates at 4.92% and 5.1% per annum, respectively. Two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of medium-term notes and the notes holders shall be entitled to sell back the notes to the Company.

As at 31 December 2020, the outstanding principal amounts of medium-term notes issued by the Company were RMB1,000,000,000 and RMB2,000,000,000, with maturity dates in July 2023 and July 2025 and interest rates at 4.45% and 4.72% per annum, respectively. Two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of medium-term notes and the notes holders shall be entitled to sell back the notes to the Company.

As at 31 December 2020, the outstanding principal amounts of medium-term notes issued by the Company were RMB1,000,000,000 and RMB1,000,000,000, with maturity dates in January 2026 and January 2029 and interest rates at 3.95% and 4.49% per annum, respectively. Two years prior to the maturity of the medium-term notes due in 2026, the Company shall be entitled to adjust the coupon rate of such medium-term notes and the notes holders shall be entitled to sell back such notes to the Company.

As at 31 December 2020, the outstanding principal amounts of medium-term notes issued by a wholly-owned subsidiary of the Company were RMB1,000,000,000 and RMB1,000,000,000, with maturity dates in March 2028 and March 2030 and interest rates at 3.43% and 3.98% per annum, respectively. Three years prior to the maturity of the medium-term notes due in 2028, the wholly-owned subsidiary of the Company shall be entitled to adjust the coupon rate of such medium-term notes and the notes holders shall be entitled to sell back such notes to the wholly-owned subsidiary of Company.

As at 31 December 2020, the outstanding principal amounts of extendable medium-term notes issued by the Company was RMB1,000,000,000 with fixed interest rate of 4.00% per annum to be payable for the first five years. After the first five years, the Company shall have a right to adjust the coupon rate for a cycle of every five years, unless and until the Company chooses to repay the outstanding principal amount with accrued interests in full. The note holders shall not be entitled to sell back the notes to the Company.

The reasons for issuance of the above bonds or notes are used for the construction, operation or acquisition of certain water project and/or “green project” and/or for general working capital purpose.

The above bonds and notes are included in notes 35, 37 and 38 to the financial statements.

# REPORT OF THE DIRECTORS

## DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2020, the Company's reserves available for distribution to shareholders of the Company amounted to HK\$5,542,037,000.

Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus account is available for distribution to the shareholders of the Company. However, the Company cannot declare or pay a dividend, or make a distribution out of these reserves if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

## DIRECTORS

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

### Executive Directors

Mr. Li Yongcheng (*Chairman*)  
Mr. E Meng (*Vice Chairman*) (*resigned on 3 January 2020*)  
Mr. Jiang Xinhao  
Mr. Zhou Min (*Chief Executive Officer*)  
Mr. Li Haifeng  
Mr. Zhang Tiefu  
Mr. Ke Jian  
Ms. Sha Ning (*appointed on 3 January 2020*)  
Mr. Tung Woon Cheung Eric  
Mr. Li Li

### Non-executive Director

Mr. Zhao Feng (*appointed on 1 January 2021*)

### Independent Non-executive Directors

Mr. Shea Chun Lok Quadrant  
Mr. Zhang Gaobo  
Mr. Guo Rui  
Mr. Wang Kaijun  
Dr. Lee Man Chun Raymond

# REPORT OF THE DIRECTORS

## **DIRECTORS** *(Continued)*

Mr. Zhao Feng was appointed as a non-executive director of the Company on 1 January 2021. In accordance with Bye-law 91 of the Bye-laws, Mr. Zhao Feng shall hold office until the forthcoming annual general meeting and being eligible, offers himself for re-election.

In accordance with Bye-law 99(B) of the Bye-laws, Mr. Li Yongcheng, Mr. Li Haifeng, Mr. Ke Jian, Mr. Tung Woon Cheung Eric and Mr. Shea Chun Lok Quadrant shall retire by rotation from office as Directors at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

The Company has received annual confirmations of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules, and as at the date of this report still considers them to be independent.

## **BOARD CHANGES**

Since the date of the interim report 2020 of the Company and up to date of this annual report, there is a change to the Board effective from 1 January 2021 as follows:

- (1) Mr. Zhao Feng appointed as a non-executive director of the Company.

## **CHANGES IN INFORMATION OF DIRECTORS UNDER RULE 13.51B(1) OF THE LISTING RULES**

Changes in information of Directors since the date of the interim report 2020 of the Company and up to the date of this annual report, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

- (1) Mr. Li Yongcheng, the chairman and an executive director of the Company, was re-designated on 2 February 2021 as executive director and chairman of the board of directors of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange;
- (2) Mr. Jiang Xinhao, an executive director of the Company, was re-designated on 2 February 2021 as executive director and vice chairman of the board of directors of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange; and
- (3) Mr. Zhang Gaobo, an independent non-executive director of the Company, resigned as an executive director and the chairman of the board of director of Wealthking Investments Limited (formerly known as OP Financial Limited) (Stock Code: 1140), a company listed on the main board of the Stock Exchange.
- (4) Mr. Wang Kaijun, an independent non-executive director of the Company, is a non-executive director of BECE Legend Group Co., Ltd., a company listed on Shenzhen Stock Exchange, which was formerly known as Sichuan Jinyu Automobile City (Group) Co., Ltd..

Directors' updated biographies are available on the Company's website.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

# REPORT OF THE DIRECTORS

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the “Directors and Senior Management” of the Company are set out on pages 50 to 54 of this annual report.

Save as disclosed in the section headed “Directors and Senior Management”, the director who is a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed under Part XV of the SFO as at the date of this annual report are set out as follows:

<b>Name of Director</b>	<b>Names of companies which had such discloseable interest or short position</b>	<b>Position within such companies</b>
Li Yongcheng	Beijing Enterprises Group (BVI) Company Limited (“BE Group (BVI)”)	Director
	Beijing Enterprises Investments Limited (“BEIL”)	Director
	Modern Orient Limited (“MOL”)	Director
Jiang Xinhao	BE Group (BVI)	Director
	BEIL	Director
	MOL	Director

## DIRECTORS’ SERVICE CONTRACTS

All Directors (including executive Directors and INEDs) had entered into letters of appointment with the Company for a term of three years but are subject to retirement by rotation and re-election in accordance with the Bye-laws. No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

# REPORT OF THE DIRECTORS

## DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's directors' remuneration are set out on pages 163 to 165 of this annual report.

Further details of the Company's remuneration committee are set out in the corporate governance report on pages 42 to 43 of this annual report.

## DISCLOSURE OF INTERESTS

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

As at 31 December 2020, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the "Model Code"), were as follows:

(i) *Long positions in the shares and/or underlying shares of the Company*

Name of Directors	Number of ordinary shares				Total	Approximate percentage of the Company's issued share capital (Note 2)
	Personal interests	Family interests	Corporate interests	Other interests		
Mr. Zhou Min	400,000	–	310,790,878 (Note 1)	–	311,190,878	3.1052%
Mr. Li Haifeng	350,544	–	–	–	350,544	0.0035%
Mr. Zhang Tiefu	224,544	–	–	–	224,544	0.0022%
Mr. Tung Woon Cheung Eric	144,290	–	–	–	144,290	0.0014%
Mr. Li Li	1,145,088	–	–	–	1,145,088	0.0114%



# REPORT OF THE DIRECTORS

## DISCLOSURE OF INTERESTS *(Continued)*

### Directors' Interests in Shares, Underlying Shares or Debentures of the Company and its Associated Corporations *(Continued)*

#### (ii) Long positions in the shares and/or underlying shares of the associated corporation

Associated Corporation	Directors	Number of ordinary shares				Total	Approximate percentage of the associated corporation's issued share capital
		Personal interests	Family interests	Corporate interests	Other interests		
Beijing Enterprises Clean Energy Group Limited ("BECEG")	Mr. Zhou Min	-	-	1,824,086,800 <i>(Note 3)</i>	-	1,824,086,800	2.8714% <i>(Note 5)</i>
	Mr. Li Haifeng	-	-	1,127,175,080 <i>(Note 4)</i>	-	1,127,175,080	1.7744% <i>(Note 5)</i>
Beijing Enterprises Urban Resources Group Limited ("BEURG")	Mr. Zhou Min	-	-	104,820,000 <i>(Note 6)</i>	-	104,820,000	2.9117% <i>(Note 8)</i>
	Mr. Li Haifeng	200,000	-	48,960,000 <i>(Note 7)</i>	-	49,160,000	1.3656% <i>(Note 8)</i>

#### Notes:

- 307,676,110 ordinary shares and 3,114,768 ordinary shares, both of HK\$0.10 each in the share capital of the Company ("Shares"), as at 31 December 2020 are held by Tenson Investment Limited and Star Colour Investments Limited, respectively, both of which are wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
- The percentage represented the number of Shares over the total issued Shares of the Company as at 31 December 2020 of 10,021,595,871 Shares.
- This represented the number of ordinary shares of BECEG of HK\$0.001 each ("BECEG Ordinary Shares") as at 31 December 2020 held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
- This represented the number of BECEG Ordinary Shares held by Maolin Investments Limited which is wholly and beneficially owned by Mr. Li Haifeng, an executive director of the Company.
- The percentage represented the number of BECEG Ordinary Shares over the total issued shares of BECEG as at 31 December 2020 of 63,525,397,057 shares.
- This represented the number of ordinary shares of BEURG of HK\$0.10 each ("BEURG Ordinary Shares") as at 31 December 2020 held by Star Colour Investments Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
- This represented the number of BEURG Ordinary Shares held by Maolin Investments Limited which is wholly and beneficially owned by Mr. Li Haifeng, an executive director of the Company.
- The percentage represented the number of BEURG Ordinary Shares over the total issued shares of BEURG as at 31 December 2020 of 3,600,000,000 shares.

# REPORT OF THE DIRECTORS

## DISCLOSURE OF INTERESTS *(Continued)*

### **Directors' Interests in Shares, Underlying Shares or Debentures of the Company and its Associated Corporations** *(Continued)*

#### *(iii) Long positions in share options of the Company*

The interests of the Directors in the share options of the Company are separately disclosed in the section “Share Option Scheme” below.

#### *(iv) Long positions in awarded shares of the Company*

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

Save as disclosed above, as at 31 December 2020, there were no interest or short position of the directors or chief executives of the Company in the Shares, the underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), that are required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code or the SFO.

## SHARE OPTION SCHEME

On 28 June 2011, a new share option scheme (the “Scheme”) is adopted by the shareholders at the special general meeting of the Company and terminated the old share option scheme adopted by the Company on 20 March 2002. The purpose of the Scheme is to provide incentives to the eligible participants to use their best endeavours in assisting the growth and the development of the Group and continue to attract human resources that are valuable to the growth and the development of the Group as a whole. The Scheme became effective on 28 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of shares available for issue under the Scheme is 547,949,469 Shares, representing approximately 5.47% of the ordinary Shares of the Company in issue as at 31 December 2020. The maximum number of ordinary Shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME *(Continued)*

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the ordinary Shares of the Company in issue at any time and with an aggregate value (based on the price of the ordinary Share of the Company at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. However, the directors of the Company may, at their discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and/or any other conditions (including the subscription price) that must be fulfilled before any option can be exercised.

The exercise period of the share options commences after a vesting period of one to five years and ends on a date which is not later than 10 years from the date of grant of the share options. The subscription price payable on exercise of share options is determinable by the Directors, but may not be less than the highest of (i) the closing price of the ordinary Shares of the Company on the Stock Exchange on the date of grant of the share options; (ii) the average closing price of the ordinary Share of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the ordinary Shares of the Company. The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the share capital of the Company.

Share options granted must be taken up within 28 days from the date of offer. An aggregate of HK\$1 is payable by each eligible grantee on acceptance of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting. The share options are non-transferable and will lapse upon expiry or the grantee ceased to be an employee of the Group pursuant to the terms of the Scheme.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME *(Continued)*

During the year ended 31 December 2020, no option was granted under the Scheme, the movements in the share options of the Company during the year are set out as follows:

Category of Participants/Name	Number of Share Options					As at 31 December 2020	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing price per Share HK\$
	As at 1 January 2020	Granted	Exercised	Lapsed	Cancelled					
<b>Directors</b>										
Zhou Min	11,200,000	-	-	-	-	11,200,000	24/04/2013	24/4/2014 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/04/2013	24/4/2015 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/04/2013	24/4/2016 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/04/2013	24/4/2017 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/04/2013	24/4/2018 – 23/4/2023	2.244	-
	56,000,000	-	-	-	-	56,000,000				
Li Haifeng	2,600,000	-	-	-	-	2,600,000	24/04/2013	24/4/2015 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/04/2013	24/4/2016 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/04/2013	24/4/2017 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/04/2013	24/4/2018 – 23/4/2023	2.244	-
	20,000,000	-	-	-	-	20,000,000				
Tung Woon Cheung Eric	1,800,000	-	-	-	-	1,800,000	24/04/2013	24/4/2014 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/04/2013	24/4/2015 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/04/2013	24/4/2016 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/04/2013	24/4/2017 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/04/2013	24/4/2018 – 23/4/2023	2.244	-
	9,000,000	-	-	-	-	9,000,000				
Li Li	1,180,000	-	-	-	-	1,180,000	24/04/2013	24/4/2015 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/04/2013	24/4/2016 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/04/2013	24/4/2017 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/04/2013	24/4/2018 – 23/4/2023	2.244	-
	12,700,000	-	-	-	-	12,700,000				

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME (Continued)

Category of Participants/Name	Number of Share Options					As at 31 December 2020	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing price per Share HK\$
	As at 1 January 2020	Granted	Exercised	Lapsed	Cancelled					
Zhang Gaobo	400,000	-	-	-	-	400,000	24/04/2013	24/4/2017 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/04/2013	24/4/2018 – 23/4/2023	2.244	-
	800,000	-	-	-	-	800,000				
Guo Rui	400,000	-	-	-	-	400,000	24/04/2013	24/4/2018 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000				
Wang Kaijun	400,000	-	-	-	-	400,000	24/04/2013	24/4/2014 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/04/2013	24/4/2015 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/04/2013	24/4/2016 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/04/2013	24/4/2017 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/04/2013	24/4/2018 – 23/4/2023	2.244	-
	2,000,000	-	-	-	-	2,000,000				
Sub-total	100,900,000	-	-	-	-	100,900,000				
<b>Eligible Participants including Employees</b>										
In aggregate	7,796,000 (Note 2)	-	-	-	-	7,796,000	24/04/2013	24/4/2014 – 23/4/2023	2.244	-
	19,004,000 (Note 2)	-	(100,000)	-	-	18,904,000	24/04/2013	24/4/2015 – 23/4/2023	2.244	2.940 (Note 1)
	28,266,000 (Note 2)	-	(100,000)	-	-	28,166,000	24/04/2013	24/4/2016 – 23/4/2023	2.244	2.940 (Note 1)
	48,660,000 (Note 2)	-	(100,000)	-	-	48,560,000	24/04/2013	24/4/2017 – 23/4/2023	2.244	2.940 (Note 1)
	50,500,000 (Note 2)	-	(100,000)	-	-	50,400,000	24/04/2013	24/4/2018 – 23/4/2023	2.244	2.940 (Note 1)
	2,000,000	-	-	-	-	2,000,000	28/03/2014	1/6/2016 – 27/3/2024	5.180	-
Sub-total	156,226,000	-	(400,000)	-	-	155,826,000				
Total	257,126,000	-	(400,000)	-	-	256,726,000				

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME *(Continued)*

Notes:

1. These represented the weighted average closing price per Share immediately before the date of the share options exercised by an eligible participant during the year.
2. Each participant was vested on 24 April 2014, 24 April 2015, 24 April 2016, 24 April 2017 and 24 April 2018 each for 20% of the share options granted.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Scheme during the year ended 31 December 2020.

The Company recognised the fair value of the share options, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. Upon the exercise of share options, the resulting Shares issued are recorded by the Company as additional share capital at the nominal value of the Shares, and the excess of the exercise price per Share over the nominal value of the Shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share options reserve will be transferred to the share premium account. When the share options are forfeited/lapsed after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share options reserve will be transferred to retained profits as a movement in reserves. For further details, please refer to the “Summary of Significant Accounting Policies” set out in note 3.4 to the financial statements.

The Directors have estimated the values of the share options using the Black-Scholes model which is a generally accepted method of valuing options. The measurement date used in the valuation calculations was the date on which the share options were granted.

The values of share options calculated using the Black-Scholes 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 256,726,000 share options outstanding under the Scheme. Should they be fully exercised, the Company will receive approximately HK\$581,965,000 (before issue expenses). The fair value of these unexercised options measured in accordance with the Group’s accounting policy (note 3.4 to the financial statements) amounted to HK\$235,419,000.

# REPORT OF THE DIRECTORS

## SHARE AWARD SCHEME

The Company has adopted a share award scheme (the “Share Award Scheme”) on 17 December 2019. The purpose of the Share Award Scheme is to recognise the contributions by certain employees, directors and consultants of the Group and encourage them for the continual operation and development of the Group, and attract excellent talent for further development of the Group.

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

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

The maximum aggregate number of Shares which can be held by the trustee under the Share Award Scheme at any single point in time shall not exceed 2% of the total issued share capital of the Company from time to time. The maximum number of existing Shares which may be awarded to a selected participant under the Share Award Scheme in any 12-month period shall not exceed 1% of the total issued share capital of the Company from time to time. If the selected participant is a director of the Company, the maximum number of existing Shares which may be awarded to him/her under the Scheme in any 12-month period shall not exceed 0.1% of the total issued share capital of the Company from time to time.

Since the adoption date and up to the date of this report, a total of 15,374,599 Shares had been awarded under the Share Award Scheme, representing about 0.15% of the issued share capital of the Company as at the date of grant of awarded Shares on 26 September 2019.

# REPORT OF THE DIRECTORS

## SHARE AWARD SCHEME *(Continued)*

During the year ended 31 December 2020, under the Share Award Scheme no awarded Shares was granted, 15,003,053 awarded Shares were vested, 371,546 awarded Shares were lapsed and returned to the trustee. As at 31 December 2020, no awarded Shares to be vested were outstanding. The movement in the awarded Shares of the Company during the year are set out below:

Category of Participants/Name	Number of awarded Shares				As at 31 December 2020
	As at 1 January 2020	Granted	Vested	Lapsed	
<b>Directors</b>					
Zhou Min	3,114,768	–	(3,114,768)	–	–
Li Haifeng	270,544	–	(270,544)	–	–
Zhang Tiefu	270,544	–	(270,544)	–	–
Tung Woon Cheung Eric	144,290	–	(144,290)	–	–
Li Li	1,241,088	–	(1,241,088)	–	–
<b>Sub-total</b>	5,041,234	–	(5,041,234)	–	–
<b>Eligible Participants</b>					
In aggregate	10,333,365	–	(9,961,819)	(371,546)	–
<b>Total</b>	15,374,599	–	(15,003,053)	(371,546)	–

Further details of the Share Award Scheme are set out in note 33 to the financial statements.



# REPORT OF THE DIRECTORS

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Save as disclosed under the heading “Directors’ Interests in Shares, Underlying Shares or Debentures of the Company and its Associated Corporations”, “Share Option Scheme” and “Share Award Scheme”, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debenture of the Company granted to any director or their respective spouse or children under the age of 18, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

## **DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS**

Save for the transactions as disclosed in the sections headed “Related Party Transactions” and “Connected Transactions” below, there were no other transactions, arrangements or contracts of significance to which the Company or any of its holding companies, subsidiaries and fellow subsidiaries was a party and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

During the year, none of the directors of the company had interest in any business constituting competing business to the Group.

# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, so far as was known to the directors or chief executives of the Company, the following persons (not being a director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

### Long positions in the Shares and/or underlying Shares of the Company

Name	Notes	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's total number of issued shares (Note 8)
		Beneficially owned	Through controlled corporation	Total	
Beijing Enterprises Environmental Construction Limited ("BE Environmental")		4,121,607,070	–	4,121,607,070	41.13%
Beijing Enterprises Holdings Limited ("BEHL")	(1)	–	4,121,607,070	4,121,607,070	41.13%
Modern Orient Limited ("MOL")	(2)	–	4,121,607,070	4,121,607,070	41.13%
Beijing Enterprises Investments Limited ("BEIL")	(2)	–	4,121,607,070	4,121,607,070	41.13%
Beijing Enterprises Group (BVI) Company Limited ("BE Group (BVI)")	(3)	–	4,121,607,070	4,121,607,070	41.13%
Beijing Enterprises Group Company Limited ("BEGCL")	(4)	–	4,141,607,070	4,141,607,070	41.33%
Three Gorges Capital Holdings (HK) Co., Limited ("TGC HK")	(5)	501,360,000	–	501,360,000	5.00%

# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

(Continued)

Long positions in the Shares and/or underlying Shares of the Company (Continued)

Name	Notes	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's total number of issued shares (Note 8)
		Beneficially owned	Through controlled corporation	Total	
Three Gorges Capital Holding Co., Ltd* (三峽資本控股有限責任 公司) ("TGC")	(5)	–	501,360,000	501,360,000	5.00%
Yangtze Ecology and Environment (HK) Investment Limited ("YEE HK")	(6)	759,699,436	–	759,699,436	7.58%
Yangtze Ecology and Environment Co., Ltd. ("YEE")	(6)	–	759,699,436	759,699,436	7.58%
China Three Gorges Corporation ("CTG")	(7)	–	1,461,481,436	1,461,481,436	14.58%

Notes:

- (1) The interest disclosed comprises the Shares owned by BE Environmental. BE Environmental beneficially holds 4,121,607,070 Shares (representing approximately 41.13% in the share capital of the Company). BE Environmental is a wholly-owned subsidiary of BEHL. Accordingly, BEHL is deemed to be interested in the Shares owned by BE Environmental.
- (2) The interest disclosed comprises the Shares owned by BEHL (through BE Environmental). MOL and BEIL are the immediate shareholders of BEHL and collectively hold approximately 20.90% of the issued share capital of BEHL. Accordingly, each of MOL and BEIL is deemed to be interested in the Shares owned by BEHL (through BE Environmental).
- (3) The interest disclosed comprises the Shares owned by BEIL and MOL (through BEHL and BE Environmental). BEHL is held directly as to approximately 41.06% by BE Group (BVI). MOL is a wholly-owned subsidiary of BEIL, which is in turn directly held as to approximately 72.72% by BE Group (BVI). Accordingly, BE Group (BVI) is deemed to be interested in the Shares indirectly owned by BEIL and MOL (through BEHL and BE Environmental).

\* For identification purpose only.

# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

*(Continued)*

### Long positions in the Shares and/or underlying Shares of the Company *(Continued)*

*Notes: (Continued)*

- (4) The interest disclosed comprises the Shares owned by BE Group (BVI) as detailed in note (3) above and 20,000,000 Shares owned by Beijing Holdings Limited ("BHL"). BE Group (BVI) and BHL are wholly-owned subsidiaries of the BEGCL. Accordingly, BEGCL is deemed to be interested in the Shares indirectly owned by BE Group (BVI) and BHL.
- (5) The interest disclosed comprises the Shares owned by TGC HK. TGC HK beneficially holds 501,360,000 Shares (representing approximately 5.00% in the share capital of the Company). TGC HK is a wholly-owned subsidiary of TGC. Accordingly, TGC is deemed to be interested in the Shares owned by TGC HK.
- (6) The interest disclosed comprises the Shares owned by YEE HK. YEE HK beneficially holds 759,699,436 Shares (representing approximately 7.58% in the share capital of the Company). YEE HK is a wholly-owned subsidiary of YEE. Accordingly, YEE is deemed to be interested in the Shares owned by YEE HK.
- (7) The interest disclosed comprises (i) 501,360,000 Shares owned by TGC HK, a direct wholly-owned subsidiary of TGC which is in turn directly held as to 70% by CTG and 10% by China Yangtze Power Co., Ltd. ("CYP"). CYP is directly held as to 57.92% by CTG and 4% by China Three Gorges Projects Developments Co., Ltd., a direct wholly-owned subsidiary of CTG; (ii) 200,422,000 Shares owned by China Yangtze Power International (Hongkong) Co., Ltd. ("CYPI"), a direct wholly-owned subsidiary of CYP; and (iii) 759,699,436 Shares owned by YEE HK, a direct wholly-owned subsidiary of YEE, which is in turn directly held as to 100% by CTG.
- (8) The percentage represented the number of Shares over the total issued Shares of the Company as at 31 December 2020 of 10,021,595,871 Shares.

Save as disclosed above, as at 31 December 2020, the Company had not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

# REPORT OF THE DIRECTORS

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

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

## **EMOLUMENT POLICY**

The emolument of each of Directors and the employees of the Group is on the basis of their merit, qualification, competence and experience in the industry, the profitability of the Group as well as remuneration benchmarks from other local and international companies and prevailing market conditions. Directors and employees also participate in bonus arrangements which are determined in accordance with the performance of the Group and the individual's performance.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Bye-laws, or the Laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the total issued capital of the Company was held by the public as at the date of this report.

## **RELATED PARTY TRANSACTIONS**

The Group entered into certain activities with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to the activities in the ordinary course of the Group's business and were negotiated on normal commercial terms and an arm's length basis. Certain transactions set out in note 52 to the financial statements are connected transactions as defined under the Listing Rules and were exempt and complied with the requirements of Chapter 14A of the Listing Rules. The disclosures required by Rule 14A.71 of the Listing Rules during the year are provided in the paragraph headed "Connected Transactions" as identified below.

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS

The Group entered into the following connected transactions during the year:

### (A) Connected Transactions

#### (I) *Connected Transactions with CTG and/or its group companies*

##### (i) Formation of Joint Ventures

###### Luhe District of Nanjing City

On 18 August 2020, Beijing Enterprises Water Group (China) Investment Limited\* (北控水務(中國)投資有限公司), (“BEWG (China) Investment”), a wholly-owned subsidiary of the Company, Nanjing Municipal Design and Research Institute Co., Ltd.\* (南京市市政設計研究院有限責任公司) (“Nanjing Municipal”), a non-wholly owned subsidiary of the Company, YEE, China National Chemical Engineering No. 14 Construction Co., Ltd.\* (中國化學工程第十四建設有限公司) (“CNCE 14”), Sinohydro Bureau 8 Co., Ltd. (中國水利水電第八工程局有限公司) (“Sinohydro Bureau 8”) collectively as private partners and Luhe Sheng Tang Water Services Co., Ltd.\* (南京六合盛棠水務有限公司) (“Luhe Sheng Tang”) as public partner entered into a shareholder agreement and articles of association in relation to the establishment of a joint venture in Luhe District of Nanjing City, the People’s Republic of China (“PRC”) for public-private-partnership (“PPP”) project of the comprehensive improvement in rural sewage treatment facilities in Luhe District of Nanjing City, the PRC (“Nanjing PPP Project”).

Pursuant to the shareholder agreement, the registered capital of the joint venture was RMB100 million. BEWG (China) Investment and Nanjing Municipal agreed to inject RMB45,815,000 and RMB500,000 to the joint venture, respectively. The joint venture would be owned as to 45.815%, 0.5%, 47.685%, 0.5%, 0.5%, and 5% equity interests by BEWG (China) Investment, Nanjing Municipal, YEE, CNCE 14, Sinohydro Bureau 8 and Luhe Sheng Tang, respectively.

\* For identification purpose only

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS *(Continued)*

### (A) **Connected Transactions** *(Continued)*

#### (I) *Connected Transactions with CTG and/or its group companies* *(Continued)*

##### (i) *Formation of Joint Ventures* *(Continued)*

###### Luhe District of Nanjing City *(Continued)*

Pursuant to the Nanjing PPP contract entered into between the private partners and Nanjing Luhe Water Bureau\* (南京市六合區水務局), each of the joint venture partners will proportionately make further cash capital contribution of a maximum amount of RMB313,410,000 in the capital requirement of the joint venture for the need of the Nanjing PPP Project. Each of private partners would be jointly and severally liable for the liabilities under the Nanjing PPP Project pursuant to a consortium agreement signed between private partners on 13 July 2020. After deducting the current and future registered capital of approximately RMB20,670,000 injected by Luhe Sheng Tang into the joint venture, BEWG (China) Investment together with Nanjing Municipal were likely to invest a maximum amount of approximately RMB392,740,000 in relation to the Nanjing PPP Project, inter alia, BEWG (China) Investment together with Nanjing Municipal shall be liable in respect of the obligation of YEE in the maximum amount of RMB197,135,000. Therefore, it constituted the financial assistance of the Company to YEE.

Further details are set out in the announcements of the Company dated 18 August 2020 and 21 August 2020.

###### Wuhan City

On 30 October 2020, BEWG (China) Investment entered into a joint venture agreement with YEE in relation to the establishment of the joint venture in Wuhan City, the PRC, for the purpose of expanding the water environmental business in Wuhan City and its surrounding area.

Pursuant to the joint venture agreement, the registered capital of the joint venture was RMB20,000,000. BEWG (China) Investment agreed to inject RMB10,200,000, representing 51% of the registered capital of the Joint Venture. YEE agreed to inject RMB9,800,000, representing 49% of the registered capital of the joint venture.

Further details are set out in the announcement of the Company dated 30 October 2020.

\* For identification purpose only

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS *(Continued)*

### (A) **Connected Transactions** *(Continued)*

#### (I) *Connected Transactions with CTG and/or its group companies (Continued)*

##### (i) *Formation of Joint Ventures (Continued)*

###### Chongqing City

On 5 November 2020, Yangtze Environmental Shangyou Co., Ltd.\* (長江環保集團上游有限公司) (“YES”), China Construction Third Bureau Group Co., Ltd.\* (中建三局集團有限公司) (“CC3 Bureau”), China Railway 11 Bureau Group Co., Ltd.\* (中鐵十一局集團有限公司) (“CR11 Bureau”), Chongqing Jiangjin Binjiang Xincheng Development and Construction Co., Ltd.\* (重慶市江津區濱江新城開發建設集團有限公司) (“Chongqing Binjiang Xincheng”), China Water and Electric Development Co., Ltd.\* (中國華水水電開發有限公司) (“CWED”), Changjiang Survey, Planning, Design and Research Co., Ltd.\* (長江勘測規劃設計研究有限責任公司) (“CSPDR”), Changsha Three Gorges Beijing Enterprises Water Group Limited\* (長沙三峽北控水務有限公司) (“CTGBE”), a non-wholly owned subsidiary of the Company, and Changsha Three Gorges Luzhou Technological Development Co., Ltd.\* (長江三峽綠洲技術發展有限公司) (“CTGLT”) entered into a shareholder agreement in relation to establishment of the joint venture for the purpose of investment, construction, operation, management and maintenance of water environment comprehensive renovation PPP Project in Jiangjin District of Chongqing City, the PRC.

Pursuant to the shareholder agreement, the registered capital of the joint venture shall be RMB100,000,000. CTGBE agreed to inject RMB1,000,000 to the joint venture. The joint venture would be owned as to 1%, 77.9%, 8%, 6%, 5%, 1%, 1% and 0.1% equity interests by CTGBE, YES, CC3 Bureau, CR11 Bureau, Chongqing Binjiang Xincheng, CWED, CSPDR and CTGLT, respectively.

Further details are set out in the announcement of the Company dated 5 November 2020.

###### Linxiang City

On 17 November 2020, YEE, Linxiang City Affordable Housing Projects Construction Investment Co., Ltd.\* (臨湘市保障性安居工程建設投資有限公司) (“Linxiang Affordable Housing Projects”), CCCC Second Harbor Engineering Company Limited\* (中交第二航務工程局有限公司) (“CCCC Second Harbor”), CTGBE, CSPDR and CTGLT entered into a shareholder agreement in relation to establishment of the joint venture for the purpose of investment, financing, construction, operation, management, maintenance and transfer of water environment comprehensive renovation engineering PPP Project in Linxiang city of Hunan province, the PRC.

Pursuant to the shareholder agreement, the registered capital of the joint venture shall be RMB178,257,700. CTGBE agreed to inject RMB1,782,600 to the joint venture. The joint venture would be owned as to 1%, 67.9%, 20%, 10%, 1% and 0.1% equity interests by CTGBE, YEE, Linxiang Affordable Housing Projects, CCCC Second Harbor, CSPDR and CTGLT, respectively.

Further details are set out in the announcement of the Company dated 17 November 2020.

\* For identification purpose only



# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS *(Continued)*

### (A) **Connected Transactions** *(Continued)*

#### (I) *Connected Transactions with CTG and/or its group companies (Continued)*

- (ii) Acquisition of equity interests in Wuhan Zhengye Dongfang Construction Investment Co., Ltd.\* (武漢正業東方建設投資有限責任公司) (“Wuhan Zhengye”)

##### First Acquisition of equity interests in Wuhan Zhengye

On 20 October 2020, BEWG (China) Investment, YEE and CITIC Zhengye Investment Development Co., Ltd.\* (中信正業投資發展有限公司) (“CITIC Zhengye”) entered into the equity transfer agreement, pursuant to which BEWG (China) Investment and YEE have conditionally agreed to purchase, and CITIC Zhengye has conditionally agreed to sell, 5.17% and 25.83% equity interests in Wuhan Zhengye respectively for the consideration of RMB27,596,700 and RMB137,923,300 respectively.

Further details are set out in the announcement of the Company dated 20 October 2020.

##### Further Acquisition of equity interests in Wuhan Zhengye

On 23 November 2020, BEWG (China) Investment, YEE and Beijing Orient Landscape Environmental Co., Ltd.\* (北京東方園林環境股份有限公司) (“Beijing Orient”) entered into the equity transfer agreement and equity transfer supplemental agreement, pursuant to which BEWG (China) Investment and YEE have conditionally agreed to purchase, and Beijing Orient has conditionally agreed to sell, 4.83% and 24.17% equity interests in Wuhan Zhengye respectively for the consideration of RMB24,973,300 and RMB124,946,700 respectively.

Further details are set out in the announcements of the Company dated 23 November 2020.

As CTG, a substantial shareholder of the Company, beneficially owns not less than 30% equity interests in YEE, YES, CWED, CSPDR, CTGLT and CTGBE and therefore YEE, YES, CWED, CSPDR, CTGLT and CTGBE are associates of CTG. Hence, YEE, YES, CWED, CSPDR, CTGLT and CTGBE are connected persons of the Company and the entering into the above-mentioned agreements in items (i) and (ii) constituted connected transactions for the Company under Chapter 14A of the Listing Rules. As these transactions were related and to be completed within 12-month period, these transactions shall be aggregated and treated as if they were one transaction under Chapter 14A of the Listing Rules which were subject to the reporting and announcement requirements but were exempt from the independent shareholders' approval requirement.

\* For identification purpose only

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS *(Continued)*

### (A) **Connected Transactions** *(Continued)*

#### (II) *Loan Agreement with Agricultural Bank of China Limited*

On 30 November 2020, Linyi Bei Kong Beicheng Water Co., Ltd.\* (臨沂北控北城水務有限公司) (“Linyi Bei Kong”), a subsidiary of the Company, as borrower, entered into the loan agreement with Agricultural Bank of China Limited (“ABC”), Linyi sub-branch, as lender, pursuant to which ABC, Linyi sub-branch has agreed to grant the loan facility in a principal amount of RMB150 million (“Linyi Loan Agreement”) to Linyi Bei Kong for a term of fifteen years from the date of drawdown and the interest payable was calculated based on the 5-year loan prime rate published by the National Interbank Funding Centre on the date preceding the drawdown date minus 0.6%.

The loan facility shall be secured by the pledge of expected earnings from Linyi Liuqing River No. 2 sewage treatment plant expansion and supporting pipeline network PPP project given by Linyi Bei Kong and the guarantee would be given by BEWG (China) Investment in favour of ABC, Linyi sub-branch with respect to the payment obligations of Linyi Bei Kong under Linyi loan agreement.

ABC Financial Asset Investment Co., Ltd\* (農銀金融資產投資有限公司) (“ABC Financial”), is the substantial shareholders of various subsidiaries of the Company. As ABC beneficially owns 100% equity interests in ABC Financial, ABC is an associate of ABC Financial. Hence, ABC is a connected person of the Company and the entering into the Linyi loan agreement and the Linyi pledge agreement together with four loan agreements entered into between two subsidiaries of the Company and ABC group within 12-month period prior to Linyi Loan Agreement constituted connected transactions for the Company under Chapter 14A of the Listing Rules. Further details are set out in the loan agreement announcement of the Company dated 30 November 2020.

#### (III) *Finance Lease Agreement with Beijing Enterprises Group Finance Co., Ltd.*

On 30 November 2020, Shandong Zhong Cai Mo Rui Water Limited\* (山東中材默銳水務有限公司) (“SD Zhong Cai”), a non-wholly owned subsidiary of the Company, as the lessee, entered into the finance lease agreement with Beijing Enterprises Group Finance Co., Ltd. (“BG Finance”), as lessor, pursuant to which SD Zhong Cai has agreed to transfer and change the registration of the ownership of the membrane material and construction, contact oxidation tank system, homogeneous filter tank system, pipeline as stipulated in the finance lease agreement under the name of BG Finance from SD Zhong Cai for a term of ten years for a transfer consideration of RMB65,000,000, and BG Finance has then agreed to lease to SD Zhong Cai with the lease principal of RMB65,000,000, the lease interest of approximately RMB17,018,984.20 and the total rent (lease principal plus lease interest) of approximately RMB82,018,984.20.

Each of BEGCL and BEHL is a connected person of the Company under the Listing Rules by virtue of each being a substantial shareholder of the Company. As each of BEGCL and BEHL beneficially owns not less than 30% equity interests in BG Finance, BG Finance is an associate of each of BEGCL and BEHL, therefore, the entering into of the finance lease agreement constituted connected transaction for the Company under Chapter 14A of the Listing Rules. Further details are set out in the finance lease transaction announcement of the Company dated 30 November 2020.

\* For identification purpose only

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS *(Continued)*

### (B) Continuing Connected Transaction

#### (a) 2018 Deposit Services Master Agreement

References are made to the deposit services master agreement (the “Deposit Services Master Agreement”) dated 31 March 2015 and the supplemental agreement to the Deposit Services Master Agreement (the “Supplemental Agreement”) dated 22 December 2015 entered into between the Company and BG Finance pursuant to which, the Group might, in its ordinary and usual course of business, place and maintain deposits with BG Finance on normal commercial terms from time to time during the period from 31 March 2015 to 31 December 2017.

As the Deposit Services Master Agreement together with the Supplemental Agreement expired on 31 December 2017, and in order to regulate such transactions that continued to take place, after 31 December 2017, the Company and BG Finance entered into the deposit services master agreement (“2018 Deposit Services Master Agreement”) on 30 October 2017 whereby the Company and BG Finance continued to carry out the transactions of similar natures from time to time under the 2018 Deposit Services Master Agreement for three years from 1 January 2018 to 31 December 2020, with the terms and conditions substantially the same as those under the Deposit Services Master Agreement together with the Supplemental Agreement. The cumulative daily outstanding deposits balance placed by the Group with BG Finance (including any interest accrued thereon) during the terms of the 2018 Deposit Services Master Agreement would not exceed HK\$2,900 million for each of the three years ending 31 December 2018, 2019 and 2020 (the “Annual Cap”). The 2018 Deposit Services Master Agreement was therefore expected not only to provide the Group with a new means of financing but also to improve the efficiency of the use of its funds through higher interest income and lower costs of financing. The Group also expected to be in a better position to manage the security of its funds since BG Finance was not considered to be exposed to any significant capital risk.

The rate at which interest would accrue on any deposit placed by the Group with BG Finance under the 2018 Deposit Services Master Agreement would not be lower than the following:

- i. the benchmark interest rate prescribed by the People’s Bank of China for the same type of deposits at the same period;
- ii. the interest rates offered by commercial banks in Hong Kong and the PRC to the Group for the same type of deposits at the same period; and
- iii. the interest rates offered by BG Finance to other members of BEGCL for the same type of deposits at the same period.

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS *(Continued)*

### (B) Continuing Connected Transaction *(Continued)*

#### (a) 2018 Deposit Services Master Agreement *(Continued)*

Each of BEGCL and BEHL is a connected person of the Company under the Listing Rules by virtue of each being a substantial shareholder of the Company. As each of BEGCL and BEHL beneficially owns not less than 30% equity interests in BG Finance, BG Finance is an associate of each of BEGCL and BEHL, therefore, the entering into of the 2018 Deposit Services Master Agreement constituted continuing connected transactions of the Company which was subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The above continuing connected transaction was carried out within the Annual Cap, details of which are set out in note 52 to the financial statements.

#### (b) Deposit Services provided by Members of Agricultural Bank of China Limited

On 13 January 2020, upon completion of capital injection by ABC Financial Asset Investment Co., Ltd.\* 農銀金融資產投資有限公司), ("ABC Financial") in Beijing Enterprises (Guangxi) Holdings Co., Ltd.\* (北控水務(廣西)集團有限公司) ("Bei Kong Guangxi"), a subsidiary of the Company, Bei Kong Guangxi is held as to 45.55% equity interests by ABC Financial, ABC Financial and its associates, including Agricultural Bank of China Limited and its members ("ABC Group"), became connected persons at the subsidiary level of the Company since then.

The maximum daily balance of deposit services (including accrued interests) of the Group with ABC Group will not exceed RMB3 billion for each of the three years ending 31 December 2020, 2021 and 2022 (the "ABC Group Annual Cap"). The provision of deposit services by ABC Group is essential to the Group in terms of facilitating the daily operating cash flows and securing stable and reliable financing support to the Group, therefore maintaining the financial health and assisting the business expansion of the Group in the coming years.

#### Pricing Principles

When determining the deposit services provided by ABC Group, the interest rates for deposit placed by the Group with ABC Group were negotiated on arm's length terms and by reference to (a) the interest rate offered by People's Bank of China (if applicable) and/or (b) the interest rates offered by other commercial banks for the same type of deposit during the same period provided to the Group.

Pursuant to the Listing Rules, the Company was required to enter into a written agreement for continuing connected transactions. However, no such written agreement had been entered into due to certain difficulties. In face of the difficulties in entering into a written master agreement with ABC Group, the Company had applied for, and the Stock Exchange had granted, a waiver from strict compliance with the written agreement requirement under the Listing Rules, which would apply to each continuing connected transaction in respect of deposit services, on the basis that the Company would set annual caps for the continuing connected transactions in accordance with the Listing Rules.

\* For identification purpose only

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS *(Continued)*

### (B) Continuing Connected Transaction *(Continued)*

#### (b) *Deposit Services provided by Members of Agricultural Bank of China Limited (Continued)* Pricing Principles *(Continued)*

The deposit services provided by ABC Group would constitute continuing connected transactions of the Company which was subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The above continuing connected transaction was carried out within the ABC Group Annual Cap, details of which are set out in note 52 to the financial statements.

#### (c) *Review by Independent Non-executive Directors and the auditors of the Company*

Pursuant to Rule 14A.55 of the Listing Rules, the continuing connected transactions set out above have been reviewed by the independent non-executive Directors, who confirmed that the aforesaid continuing connected transaction was entered into:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms; and
- (c) according to the interest rates for deposit placed by the Group based on the agreement or without agreement are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

#### (d) *2021 Deposit Services Master Agreement*

As the 2018 Deposit Services Master Agreement would expire on 31 December 2020, and in order to regulate such transactions that would continue to take place, after 31 December 2020, the Company and BG Finance entered into the 2021 Deposit Services Master Agreement on 23 December 2020 whereby the Company and BG Finance would continue to carry out the transactions of similar natures from time to time under the 2021 Deposit Services Master Agreement for three years from 1 January 2021 to 31 December 2023, with the terms and conditions substantially the same as those under 2018 Deposit Services Master Agreement. The daily aggregate of deposits placed by the Group with BG Finance (including any interest accrued thereon) during the terms of the 2021 Deposit Services Master Agreement shall not exceed HK\$1,520,000,000.

# REPORT OF THE DIRECTORS

## PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution and discharge of the duties of his/her office or otherwise in relation thereto. No Director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto, provided that this Bye-law shall only have effect in so far as its provisions are not avoided by the Companies Act 1981 of Bermuda (as amended).

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

## DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$1,613,000.

## EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option Scheme" above, no equity-linked agreements were entered into by the Group, or existed during the year.

# REPORT OF THE DIRECTORS

## SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

As at the date of this annual report, details of the agreements (the “Agreement(s)”) with covenants relating to specific performance of the controlling shareholder which constituted disclosure obligation pursuant to Rules 13.18 and 13.21 of the Listing Rules are as follows:

Date of the Agreement(s)/ Issuance of Notes	Nature of the Agreement(s)/Notes	Aggregate amount (million)	Final Maturity	Specific performance obligations
8 November 2013	Note purchase agreement with an institutional investor	RMB2,000	November 2022	<i>Note 1</i>
18 December 2017	Term loan facility with a bank	HK\$4,000	December 2022	<i>Note 2</i>
24 April 2018	Subscription agreement for issuance of bonds	US\$500	May 2023	<i>Note 1</i>
25 May 2018	Issuance of medium-term notes	RMB2,000	May 2023 <i>Note 4</i>	<i>Note 1</i>
		RMB1,000	May 2025 <i>Note 4</i>	<i>Note 1</i>
20 July 2018	Issuance of medium-term notes	RMB1,000	July 2023 <i>Note 4</i>	<i>Note 1</i>
		RMB2,000	July 2025 <i>Note 4</i>	<i>Note 1</i>
14 December 2018	Term loan facilities with various banks	AU\$210	December 2023	<i>Note 3</i>
11 January 2019	Issuance of medium-term notes	RMB1,000	January 2026 <i>Note 4</i>	<i>Note 1</i>
11 January 2019	Issuance of medium-term notes	RMB1,000	January 2029	<i>Note 1</i>
12 May 2020	Issuance of medium-term notes	RMB1,000	5+N years <i>Note 5</i>	<i>Note 1</i>
16 Nov 2020	Green loan facility with a bank	HK\$1,800	November 2025	<i>Note 2</i>
25 Nov 2020	Term loan facility with a bank	HK\$1,500	November 2025	<i>Note 2</i>

# REPORT OF THE DIRECTORS

## SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER *(Continued)*

Notes:

1. (i) BEHL owns or controls at least/more than 35% of the voting rights of the issued share capital of the Company, whether directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise; (ii) BEHL supervises the Company and/or have management control over the Company; (iii) BEHL is directly or indirectly the single largest shareholder of the Company; and/or (iv) the nominees of BEHL comprise the majority of the members of the Board.
2. (i) BEHL owns, directly or indirectly, at least 35% of the beneficial shareholding carrying at least 35% of voting rights in the Company, free from any security; (ii) BEHL supervises the Company and/or have management control over the Company; (iii) BEHL is directly or indirectly the single largest shareholder of the Company; (iv) BEGCL owns, directly or indirectly, at least 40% of the beneficial shareholding carrying at least 40% of the voting rights in BEHL, free from any security; (v) BEGCL is directly or indirectly the single largest shareholder of BEHL or supervises BEHL; and (vi) BEGCL is effectively wholly-owned, supervised and controlled by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality\* (北京市人民政府國有資產監督管理委員會) ("Beijing SASAC").
3. (i) BEHL owns, directly or indirectly, more than 35% of the issued share capital of the Company; (ii) BEHL is the single largest shareholder of the Company; (iii) BEGCL owns, directly or indirectly, at least 40% of the beneficial shareholding carrying at least 40% of the voting rights in BEHL, free from any security and (iv) BEGCL is effectively wholly-owned, supervised and controlled by Beijing SASAC.
4. Two years prior to the maturity pursuant to the terms and conditions in the medium-term notes, the Company shall be entitled to adjust the coupon rate of the medium-term notes and the note holders shall be entitled to sell back the medium-term notes to the Company.
5. The reset date of each coupon rate is the redemption date. The Company has the right to choose to redeem the principal at the face value plus accrued interest on the first reset date of the coupon rate of the medium-term note and every subsequent interest payment date. The reset date of coupon rate is the corresponding day of every 5 years from the first reset date of coupon rate. The end of the fifth interest-bearing year is the first reset date of coupon rate. From the sixth interest-bearing year, the coupon rate is reset every 5 years.

\* For identification purposes only

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



# REPORT OF THE DIRECTORS

## EQUITY FUNDS RAISING BY PRIVATE PLACEMENT AND SHARES SUBSCRIPTION

### Subscription of new shares under specific mandate by CYPI

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

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

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

Net proceeds raised (approximately)	Intended use of proceeds (approximately)	Actual use of proceeds Up to 31 December 2020 (approximately)	Balance of the proceeds Up to 31 December 2020 (approximately)
HK\$2,018.6 million	(i) HK\$1,518.6 million for the investment in traditional water projects including “Build-Operate-Transfer” (“BOT”) and “Transfer-Operate-Transfer” (“TOT”) projects; and	(i) HK\$1,518.6 million for the investment in traditional water projects including BOT and TOT projects; and	(i) Nil
	(ii) HK\$500.0 million for the construction of water environment comprehensive renovation projects	(ii) HK\$500.0 million for the construction of water environment comprehensive renovation projects	(ii) Nil

As at 31 December 2020, the proceeds have been fully utilized in accordance with the intended use.

# REPORT OF THE DIRECTORS

## EQUITY FUNDS RAISING BY PRIVATE PLACEMENT AND SHARES SUBSCRIPTION *(Continued)*

### Subscription of new shares under specific mandate by BE Environmental

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

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

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

<b>Net proceeds raised (approximately)</b>	<b>Intended use of proceeds (approximately)</b>	<b>Actual use of proceeds Up to 31 December 2020 (approximately)</b>	<b>Balance of the proceeds Up to 31 December 2020 (approximately)</b>
HK\$547.5 million	HK\$547.5 million for repayment of debts	HK\$547.5 million for repayment of debts	Nil

As at 31 December 2020, the proceeds have been fully utilized in accordance with the intended use.

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

## CORPORATE GOVERNANCE

The Company is committed to maintaining the quality of corporate governance so as to ensure better transparency of the Company, protection of shareholders’ and stakeholders’ rights and enhance shareholder value. During the year ended 31 December 2020, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules, with deviation mentioned below.

# REPORT OF THE DIRECTORS

## **CORPORATE GOVERNANCE** *(Continued)*

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

The corporate governance report is set out on pages 33 to 49 of this annual report.

## **COMPLIANCE WITH THE MODEL CODE**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding Directors' securities transactions. Having made specific enquiry of the Directors, the Company confirms that all of the Directors have complied with, for any part of the accounting period covered by this annual report, the required standard set out in the Model Code.

## **AUDITORS**

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

## **EVENT AFTER THE REPORTING PERIOD**

There is no significant event after the reporting period of the Group.

## **APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements of the Group for the year ended 31 December 2020 were approved by the board of directors on 30 March 2021.

On behalf of the Board

**Li Yongcheng**  
*Chairman*

Hong Kong  
30 March 2021

# INDEPENDENT AUDITOR'S REPORT



**Ernst & Young**  
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**To the shareholders of Beijing Enterprises Water Group Limited**  
*(Incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of Beijing Enterprises Water Group Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 97 to 258, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS

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

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

### Key audit matter

### How our audit addressed the key audit matter

#### Determination of fair value of contract revenue in respect of the construction services rendered

Revenue from the construction of sewage and reclaimed water treatment and water distribution plants under the terms of Build-Operate-Transfer (“BOT”) contracts represented approximately 35% of total revenue for the year ended 31 December 2020 and was accounted for under HK(IFRIC) Interpretation 12 *Service Concession Arrangements*. The revenue was estimated on a cost-plus basis with reference to a prevailing market rate of profit margin at the date of the agreement applicable to similar construction services rendered in a similar location. The Group engaged an external valuer to support their estimation of the gross profit margin for the construction revenue. Significant management judgement was involved in determining the construction margins for these construction services.

Disclosure of the determination of the fair value of construction contract revenue is included in note 4 to the financial statements.

We obtained an understanding of the Group's BOT process and considered the objectivity, independence and competency of the external valuer engaged by the Group. In addition, we involved our internal valuation specialists to assist us to assess the reasonableness of the bases and assumptions adopted in the valuation. Our procedures included discussions with management and the external valuer about the parameters used in estimating the Group's construction margins, including the benchmarks made to other comparable companies. We also performed a comparison of the inputs used in the valuation to external market data.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS *(Continued)*

### Key audit matter

### How our audit addressed the key audit matter

#### **Provision for expected credit losses on receivables under service concession arrangements, trade and other receivables and amounts due from contract customers**

The Group has significant receivables under service concession arrangements, trade and other receivables and amounts due from contract customers with an aggregate carrying amount of approximately HK\$118.9 billion which represents 68% of the Group's total assets as at 31 December 2020. The provision for expected credit losses ("ECL") of these assets carried as at 31 December 2020 was approximately HK\$1.4 billion in aggregate.

Management has engaged an independent specialist to assist in the calculation of the ECL. The Group considers the available information which includes information about past events, current conditions and forecasts of future economic conditions to estimate the ECL.

We identified the ECL assessment of receivables under service concession arrangements, trade and other receivables and amounts due from contract customers as a key audit matter because of the significant balance of them, and significant management judgements and estimates are involved in determining the ECL.

Relevant disclosures are included in notes 4, 18, 26, 27 and 28 to the financial statements.

We obtained an understanding of the Group's credit risk management and practices, and assessed the Group's policy on determining ECL, including an evaluation of management judgements on (i) the level of disaggregation of categories for assessment; (ii) the use of available credit risk information including historical and forward-looking factors; and (iii) the criteria for determining if a significant increase in credit risk has occurred.

We obtained and reviewed the valuation established by management which is based on the relevant credit risk of the debtors and, with the aid of the external specialist, adjusted for forward-looking factors specific to the debtors and the economic environment. We also checked, on a sample basis, the settlement status subsequent to the reporting period.

We assessed the competence, objectivity and independence of the Group's external specialist.

We involved our internal valuation specialists to assist us to evaluate the Group's estimation methodology of ECL and check the parameters to external available data sources.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS *(Continued)*

### Key audit matter

### How our audit addressed the key audit matter

#### Goodwill impairment testing

Management is required to test goodwill for impairment at least on an annual basis. This test is largely based on management expectations, assumptions and estimates of future results of the cash-generating units to which the goodwill has been allocated. The Group engaged an external valuer to prepare the valuation models to assist with the impairment assessment. The assumptions are affected by expectations of future market or economic conditions. The impairment test is based on the recoverable amounts of the relevant cash-generating units, which is compared with their respective carrying values. As at 31 December 2020, the goodwill carried in the Group's financial statements was approximately HK\$4.2 billion.

Disclosures of goodwill are included in notes 4 and 17 to the financial statements.

We obtained an understanding of the Group's impairment testing methodology and involved our internal valuation specialists in evaluating the valuation models, assumptions and parameters used by the valuer and the Group. Our procedures included testing the assumptions used in the cash flow forecast and assessing the accuracy of previous forecasts by comparison with the current performance. We also assessed the disclosures on the impairment testing, specifically the key assumptions that have the most significant effect on the determination of the recoverable amount of the goodwill, such as the discount rate and growth rate.

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

# INDEPENDENT AUDITOR'S REPORT

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 HKSAAs 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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

# INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

30 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
REVENUE	<i>6</i>	<b>25,360,587</b>	28,192,464
Cost of sales		<b>(15,630,932)</b>	(18,025,661)
Gross profit		<b>9,729,655</b>	10,166,803
Interest income	<i>6</i>	<b>697,401</b>	695,662
Other income and gains, net	<i>6</i>	<b>1,312,575</b>	1,308,859
Administrative expenses		<b>(2,526,199)</b>	(2,499,597)
Other operating expenses, net		<b>(1,235,571)</b>	(619,224)
PROFIT FROM OPERATING ACTIVITIES	<i>7</i>	<b>7,977,861</b>	9,052,503
Finance costs	<i>8</i>	<b>(2,549,124)</b>	(2,432,792)
Share of profits and losses of:			
Joint ventures	<i>20</i>	<b>729,681</b>	551,395
Associates	<i>21</i>	<b>330,781</b>	384,986
PROFIT BEFORE TAX		<b>6,489,199</b>	7,556,092
Income tax expense	<i>11</i>	<b>(1,248,658)</b>	(1,713,503)
PROFIT FOR THE YEAR		<b>5,240,541</b>	5,842,589
ATTRIBUTABLE TO:			
Shareholders of the Company		<b>4,183,466</b>	4,925,718
Holders of perpetual capital instruments		<b>232,180</b>	234,830
Non-controlling interests		<b>824,895</b>	682,041
		<b>5,240,541</b>	5,842,589
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	<i>13</i>		
– Basic		<b>HK41.57 cents</b>	HK49.77 cents
– Diluted		<b>HK41.16 cents</b>	HK49.04 cents

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
PROFIT FOR THE YEAR		5,240,541	5,842,589
OTHER COMPREHENSIVE INCOME/(LOSS)			
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange fluctuation reserve:			
– Translation of foreign operations		4,551,522	(907,007)
– Release upon disposal of subsidiaries	47	2,871	(372)
– Release upon deemed disposal of partial interest in associates		(3,552)	–
		4,550,841	(907,379)
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>			
– Share of other comprehensive income/(loss) of a joint venture		2,050	(3,786)
– Changes in fair value of equity investments designated at fair value through other comprehensive income		(74,669)	2,380
		(72,619)	(1,406)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		4,478,222	(908,785)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		9,718,763	4,933,804
ATTRIBUTABLE TO:			
Shareholders of the Company		7,692,950	4,245,618
Holders of perpetual capital instruments		604,263	134,929
Non-controlling interests		1,421,550	553,257
		9,718,763	4,933,804

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>ASSETS</b>			
Non-current assets:			
Property, plant and equipment	14	4,700,229	4,166,073
Right-of-use assets	16	787,019	754,286
Investment properties	15	855,598	806,785
Goodwill	17	4,183,392	4,032,698
Operating concessions	18	5,556,365	4,862,357
Other intangible assets	19	358,928	247,513
Investments in joint ventures	20	9,968,952	7,976,242
Investments in associates	21	6,361,473	5,262,302
Equity investments designated at fair value through other comprehensive income	23	1,410,899	1,404,379
Financial asset at fair value through profit or loss	22	68,036	80,258
Amounts due from contract customers	26	42,314,218	46,646,874
Receivables under service concession arrangements	18	41,698,277	32,033,313
Trade receivables	27	12,277,112	4,638,425
Prepayments, deposits and other receivables	28	2,148,932	2,650,265
Deferred tax assets	41	264,250	347,683
<b>Total non-current assets</b>		<b>132,953,680</b>	115,909,453
Current assets:			
Non-current assets held for sale	24	–	328,517
Inventories	25	230,871	243,074
Amounts due from contract customers	26	3,091,651	2,988,428
Receivables under service concession arrangements	18	4,131,424	3,815,388
Trade receivables	27	8,955,073	6,324,510
Prepayments, deposits and other receivables	28	9,749,686	9,178,814
Restricted cash and pledged deposits	30	591,542	212,827
Cash and cash equivalents	30	14,697,194	12,159,915
<b>Total current assets</b>		<b>41,447,441</b>	35,251,473
<b>TOTAL ASSETS</b>		<b>174,401,121</b>	151,160,926

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to shareholders of the Company</b>			
Issued capital	<i>31</i>	<b>1,002,160</b>	1,002,120
Perpetual capital instrument	<i>35</i>	<b>1,187,358</b>	–
Reserves	<i>34</i>	<b>35,154,294</b>	29,546,330
		<b>37,343,812</b>	30,548,450
<b>Perpetual capital instruments</b>	<i>35</i>	<b>6,623,082</b>	6,250,999
<b>Non-controlling interests</b>		<b>13,157,111</b>	9,731,727
		<b>19,780,193</b>	15,982,726
<b>TOTAL EQUITY</b>		<b>57,124,005</b>	46,531,176
<b>Non-current liabilities:</b>			
Other payables and accruals	<i>43</i>	<b>1,325,842</b>	1,040,162
Bank and other borrowings	<i>36</i>	<b>42,808,986</b>	30,353,035
Corporate bonds	<i>37</i>	<b>12,517,494</b>	16,598,747
Notes payable	<i>38</i>	<b>2,379,704</b>	2,245,023
Lease liabilities	<i>16</i>	<b>300,144</b>	394,435
Provision for major overhauls	<i>39</i>	<b>230,496</b>	242,562
Deferred income	<i>40</i>	<b>1,696,195</b>	1,297,695
Deferred tax liabilities	<i>41</i>	<b>4,096,254</b>	3,480,180
<b>Total non-current liabilities</b>		<b>65,355,115</b>	55,651,839
<b>Current liabilities:</b>			
Trade payables	<i>42</i>	<b>26,421,706</b>	26,892,990
Other payables and accruals	<i>43</i>	<b>9,639,580</b>	8,972,912
Income tax payables		<b>1,436,514</b>	1,294,006
Bank and other borrowings	<i>36</i>	<b>6,824,691</b>	9,023,192
Corporate bonds	<i>37</i>	<b>7,490,730</b>	1,966,157
Notes payable	<i>38</i>	–	699,746
Lease liabilities	<i>16</i>	<b>108,780</b>	128,908
<b>Total current liabilities</b>		<b>51,922,001</b>	48,977,911
<b>TOTAL LIABILITIES</b>		<b>117,277,116</b>	104,629,750
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>174,401,121</b>	151,160,926

**Li Yongcheng**  
*Director*

**Zhou Min**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

Notes	Attributable to shareholders of the Company														Total equity HK\$'000		
	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Shares held under share award scheme HK\$'000 (note 33)	Share option and share award reserve HK\$'000 (note 34 (b))	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Fair value reserve HK\$'000	Defined benefit plan reserve HK\$'000	Exchange fluctuation reserve HK\$'000	PRC reserve funds HK\$'000 (note 34 (c))	Retained profits HK\$'000	Perpetual capital instrument HK\$'000	Total HK\$'000		Perpetual capital instruments HK\$'000	Non-controlling interests HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000	HK\$'000
At 1 January 2020	1,002,120	2,537,183	6,510,858	(110,014)	276,299	115,491	122,482	89,836	(58,464)	(3,873,027)	2,126,163	21,809,523	-	30,548,450	6,250,999	9,731,727	46,531,176
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	4,153,869	29,597	4,183,466	232,180	824,895	5,240,541
Other comprehensive income/ (loss) for the year:																	
Exchange differences related to foreign operations	-	-	-	-	-	-	-	-	-	3,582,784	-	-	-	3,582,784	372,083	596,655	4,551,522
Release upon disposal of subsidiaries	47	-	-	-	-	-	-	-	-	2,871	-	-	-	2,871	-	-	2,871
Release upon deemed disposal of partial interest in associates	-	-	-	-	-	-	-	-	-	(3,552)	-	-	-	(3,552)	-	-	(3,552)
Share of other comprehensive income of a joint venture	-	-	-	-	-	-	-	-	2,050	-	-	-	-	2,050	-	-	2,050
Changes in fair value of equity investments designated at fair value through other comprehensive income	-	-	-	-	-	-	-	(74,669)	-	-	-	-	-	(74,669)	-	-	(74,669)
Total comprehensive income/ (loss) for the year	-	-	-	-	-	-	-	(74,669)	2,050	3,582,103	-	4,153,869	29,597	7,692,950	604,263	1,421,550	9,718,763
Issuance of a perpetual capital instrument	35	-	-	-	-	-	-	-	-	-	-	-	1,187,358	1,187,358	-	-	1,187,358
Exercise of share options	32	40	1,189	-	(332)	-	-	-	-	-	-	-	-	897	-	-	897
Exercise of share awards	33	-	-	56,329	(53,171)	-	-	-	-	-	-	(3,158)	-	-	-	-	-
Equity-settled share award arrangements	33(b)	-	-	-	27,244	-	-	-	-	-	-	-	-	27,244	-	-	27,244
Shares purchased for share award scheme	33(a)	-	-	(67,583)	-	-	-	-	-	-	-	-	-	(67,583)	-	-	(67,583)
Transfer of share award reserve upon forfeiture of share award	-	-	-	-	(1,317)	-	-	-	-	-	-	1,317	-	-	-	-	-
Release upon disposal of equity investment through other comprehensive income	-	-	-	-	-	-	(39,860)	-	-	-	-	39,860	-	-	-	-	-
Acquisition of subsidiaries	46	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,709	16,709
Acquisition of non-controlling interests	-	-	-	-	-	17,841	-	-	-	-	-	-	-	17,841	-	(101,007)	(83,166)
Disposal of partial interests in subsidiaries	-	-	-	-	-	26,099	-	-	-	-	-	-	-	26,099	-	8,476	34,575
Disposal/deregistration of subsidiaries	47	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(490,420)	(490,420)
Share of reserves of associates	-	-	-	-	(1,600)	28,800	-	-	-	-	-	-	-	27,200	-	-	27,200
Dividends paid to non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(404,712)	(404,712)
Capital contributions from non-controlling equity holders	-	-	-	-	-	(463,614)	-	-	-	-	-	-	-	(463,614)	-	2,974,788	2,511,174
Distributions paid to holders of perpetual capital instruments	35	-	-	-	-	-	-	-	-	-	-	-	(29,597)	(29,597)	(232,180)	-	(261,777)
Final 2019 cash distributions paid	12	-	(781,653)	-	-	-	-	-	-	-	-	-	-	(781,653)	-	-	(781,653)
Interim 2020 cash distributions paid	12	-	(841,780)	-	-	-	-	-	-	-	-	-	-	(841,780)	-	-	(841,780)
Transfer to reserves	-	-	-	-	-	-	-	-	-	-	469,995	(469,995)	-	-	-	-	-
At 31 December 2020	1,002,160	2,538,372*	4,887,425*	(121,268)*	247,123*	(275,383)*	122,482*	(24,693)*	(56,414)*	(290,924)*	2,596,158*	25,531,416*	1,187,358	37,343,812	6,623,082	13,157,111	57,124,005

\* These reserve accounts comprise the consolidated reserves of HK\$35,154,294,000 (2019: HK\$29,546,330,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to shareholders of the Company														Total equity		
	Notes	Issued capital	Share premium account	Contributed surplus	Shares held under share award scheme	Share option and share award reserve	Capital reserve	Property revaluation reserve	Fair value reserve	Defined benefit plan reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Total		Perpetual capital instruments	Non-controlling interests
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019		941,299	-	8,413,729	-	254,178	(90,564)	122,482	87,456	(54,678)	(3,194,333)	1,597,788	17,412,180	25,489,537	6,350,900	5,971,700	37,812,137
Profit for the year		-	-	-	-	-	-	-	-	-	-	-	4,925,718	4,925,718	234,830	682,041	5,842,589
Other comprehensive income/(loss) for the year:																	
Exchange differences related to foreign operations		-	-	-	-	-	-	-	-	(678,322)	-	-	(678,322)	(99,901)	(128,784)	(907,007)	
Release upon disposal of subsidiaries	47	-	-	-	-	-	-	-	-	(372)	-	-	(372)	-	-	(372)	
Share of other comprehensive loss of a joint venture		-	-	-	-	-	-	-	(3,786)	-	-	-	(3,786)	-	-	(3,786)	
Changes in fair value of equity investments designated at fair value through other comprehensive income		-	-	-	-	-	-	2,380	-	-	-	-	-	2,380	-	-	2,380
Total comprehensive income/(loss) for the year		-	-	-	-	-	-	2,380	(3,786)	(678,694)	-	4,925,718	4,245,618	134,929	553,257	4,933,804	
Issue of shares	31	59,840	2,507,284	-	-	-	-	-	-	-	-	-	2,567,124	-	-	2,567,124	
Exercise of share options	31	981	29,899	-	-	(8,869)	-	-	-	-	-	-	22,011	-	-	22,011	
Equity-settled share award arrangements	33(b)	-	-	-	-	27,244	-	-	-	-	-	-	27,244	-	-	27,244	
Shares purchased for share award scheme	33(a)	-	-	-	(110,014)	-	-	-	-	-	-	-	(110,014)	-	-	(110,014)	
Acquisition of subsidiaries	46	-	-	-	-	-	-	-	-	-	-	-	-	-	136,909	136,909	
Acquisition of non-controlling interests		-	-	-	-	(41,982)	-	-	-	-	-	-	(41,982)	-	(76,741)	(118,723)	
Share of reserves of associates		-	-	-	-	3,746	404,831	-	-	-	-	-	408,577	-	-	408,577	
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	-	-	(128,398)	(128,398)	
Capital contributions from non-controlling equity holders		-	-	-	-	-	(156,794)	-	-	-	-	-	(156,794)	-	3,275,000	3,118,206	
Distributions paid to holders of perpetual capital instruments	35	-	-	-	-	-	-	-	-	-	-	-	-	(234,830)	-	(234,830)	
Final 2018 cash distributions paid		-	-	(830,945)	-	-	-	-	-	-	-	-	(830,945)	-	-	(830,945)	
Interim 2019 cash distributions paid	12	-	-	(1,071,926)	-	-	-	-	-	-	-	-	(1,071,926)	-	-	(1,071,926)	
Transfer to reserves		-	-	-	-	-	-	-	-	-	528,375	(528,375)	-	-	-	-	
At 31 December 2019		1,002,120	2,537,183*	6,510,858*	(110,014)*	276,299*	115,491*	122,482*	89,836*	(58,464)*	(3,873,027)*	2,126,163*	21,809,523*	30,548,450	6,250,999	9,731,727	46,531,176



# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>6,489,199</b>	7,556,092
Adjustments for:			
Bank interest income	6	<b>(237,293)</b>	(202,459)
Interest income on trade and other receivables with extended credit periods	6	<b>(431,232)</b>	(282,647)
Interest income on loans to joint ventures	6	<b>(14,597)</b>	(21,090)
Other interest income	6	<b>(14,279)</b>	(189,466)
Dividend income from equity investments at fair value through other comprehensive income	6	<b>(38,338)</b>	(25,123)
Fair value gain on investment properties	6	<b>(745)</b>	(2,785)
Gain on bargain purchase of subsidiaries	6	<b>(23,188)</b>	(78,275)
Gain on disposal of subsidiaries, net	6	<b>(5,912)</b>	(33,126)
Loss on deregistration of an associate	7	<b>1,362</b>	–
Gain on deemed disposal of partial interest in associates	6	<b>(129,917)</b>	–
Depreciation of right-of-use assets	7	<b>82,027</b>	50,455
Depreciation of property, plant and equipment	7	<b>360,843</b>	269,253
Amortisation of operating concessions	7	<b>214,821</b>	255,591
Amortisation of other intangible assets	7	<b>31,074</b>	20,384
Impairment of receivables under service concession arrangements, net	7	<b>74,099</b>	64,733
Impairment/(reversal of impairment) of amounts due from contract customers, net	7	<b>(9,255)</b>	16,490
Impairment of trade receivables, net	7	<b>131,410</b>	19,124
Impairment of other receivables, net	7	<b>479,336</b>	70,566
Impairment of property, plant and equipment	7	<b>74,812</b>	–
Provision for major overhauls	7	<b>209,024</b>	175,178
Loss/(gain) on disposal of items of property, plant and equipment, net	7	<b>(1,469)</b>	894
Equity-settled share award expenses	7	<b>27,244</b>	27,244
Finance costs	8	<b>2,821,879</b>	2,677,021
Share of profits and losses of joint ventures		<b>(729,681)</b>	(551,395)
Share of profits and losses of associates		<b>(330,781)</b>	(384,986)
Operating profit before working capital changes		<b>9,030,443</b>	9,431,673

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	<i>Note</i>	<b>2020</b> <b>HK\$'000</b>	2019 <i>HK\$'000</i>
Operating profit before working capital changes		<b>9,030,443</b>	9,431,673
Decrease/(increase) in inventories		<b>24,991</b>	(18,321)
Decrease/(increase) in amounts due from contract customers		<b>6,646,866</b>	(11,456,120)
Increase in receivables under service concession arrangements		<b>(9,582,644)</b>	(3,201,303)
Increase in trade receivables		<b>(8,758,028)</b>	(3,735,914)
Decrease/(increase) in prepayments, deposits and other receivables		<b>147,685</b>	(2,667,063)
Increase/(decrease) in trade payables		<b>(1,903,313)</b>	8,667,132
Increase/(decrease) in other payables and accruals		<b>1,593,649</b>	(393,720)
Utilisation of provision for major overhauls	39	<b>(235,503)</b>	(164,862)
Cash used in operations		<b>(3,035,854)</b>	(3,538,498)
Mainland China corporate income tax paid		<b>(602,071)</b>	(579,418)
Overseas taxes paid		<b>(23,589)</b>	(46,240)
Net cash flows used in operating activities		<b>(3,661,514)</b>	(4,164,156)

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	2019 <i>HK\$'000</i>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment	<i>14</i>	<b>(760,696)</b>	(483,500)
Purchases of leasehold land		<b>(54,469)</b>	(91,655)
Additions of operating concessions	<i>18</i>	<b>(753,961)</b>	(915,182)
Additions of other intangible assets	<i>19</i>	<b>(120,697)</b>	(125,579)
Acquisition of subsidiaries	<i>46</i>	<b>688</b>	(930,672)
Payment for acquisition of subsidiaries in prior years		<b>(37,106)</b>	(279,011)
Disposal of subsidiaries	<i>47</i>	<b>192,505</b>	1,169
Proceeds from disposal of a subsidiary in the prior year		–	785,270
Proceeds from disposal of other intangible assets		<b>3</b>	–
Proceeds from disposal of items of property, plant and equipment		<b>23,918</b>	74,038
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		<b>68,638</b>	–
Acquisition of/increase in investments in joint ventures		<b>(528,682)</b>	(1,023,868)
Acquisition of/increase in investments in associates		<b>(55,580)</b>	(26,574)
Purchases of equity investments designated at fair value through other comprehensive income		<b>(142,328)</b>	(30,392)
Decrease in time deposits with maturity of more than three months when acquired		<b>21,634</b>	262,471
Decrease/(increase) in restricted cash and pledged deposits		<b>(378,715)</b>	444,022
Redemption of asset-backed note	<i>22</i>	<b>16,045</b>	16,239
Dividends received from joint ventures		<b>246,596</b>	166,803
Dividends received from equity instruments at fair value through other comprehensive income		<b>38,338</b>	25,123
Bank interest received		<b>237,293</b>	202,459
<b>Net cash flows used in investing activities</b>		<b>(1,986,576)</b>	(1,928,839)

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	2019 <i>HK\$'000</i>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Capital contributions from non-controlling equity holders		<b>2,511,174</b>	3,118,206
Acquisition of non-controlling interests		<b>(83,166)</b>	(118,723)
Issue of corporate bonds		<b>2,521,859</b>	2,223,915
Issuance of a perpetual capital instrument		<b>1,187,358</b>	–
Repayment of corporate bonds		<b>(1,682,199)</b>	(4,007,925)
Repayment of a note payable		<b>(700,000)</b>	–
Distributions to holders of perpetual capital instruments	35	<b>(261,777)</b>	(234,830)
New bank and other borrowings		<b>23,461,868</b>	16,119,748
Repayment of bank and other borrowings		<b>(14,441,298)</b>	(9,235,050)
Proceeds from exercise of share options		<b>897</b>	22,011
Proceeds from issue of shares		–	2,567,124
Proceeds from disposal of partial interest of a subsidiary		<b>34,575</b>	–
Shares purchased for the share award scheme		<b>(67,583)</b>	(110,014)
Principal portion of lease payments		<b>(151,844)</b>	(88,356)
Interest paid		<b>(2,697,563)</b>	(2,626,600)
Distributions paid		<b>(1,623,433)</b>	(1,902,871)
Dividends paid to non-controlling equity holders		<b>(404,712)</b>	(128,398)
<b>Net cash flows from financing activities</b>		<b>7,604,156</b>	5,598,237
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		<b>12,093,074</b>	12,608,335
Effect of foreign exchange rate changes, net		<b>602,847</b>	(20,503)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>14,651,987</b>	12,093,074
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents as stated in the consolidated statement of financial position	30	<b>14,697,194</b>	12,159,915
Less: Time deposits with maturity of more than three months when acquired		<b>(45,207)</b>	(66,841)
<b>Cash and cash equivalents as stated in the consolidated statement of cash flows</b>		<b>14,651,987</b>	12,093,074

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 1. CORPORATE AND GROUP INFORMATION

Beijing Enterprises Water Group Limited (the “Company” or “BEWG”) is a limited liability company incorporated in Bermuda and shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

During the year, the Company and its subsidiaries (collectively the “Group”) were involved in the following principal activities:

- construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the mainland (“Mainland China”) of the People’s Republic of China (the “PRC”), Malaysia, Australia and the Republic of Botswana;
- provision of sewage and reclaimed water treatment services in Mainland China, the Republic of Singapore (“Singapore”), the Portuguese Republic (“Portugal”), Australia;
- distribution and sale of piped water in Mainland China, Portugal and Australia;
- provision of technical and consultancy services and sale of machineries related to sewage treatment and construction services for comprehensive renovation projects in Mainland China and Australia; and
- licensing of technical know-how related to sewage treatment in Mainland China.

### Information about subsidiaries

(a) *Particulars of the Company’s principal subsidiaries are as follows:*

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
深圳北控創新投資有限公司#	PRC/Mainland China	RMB300,000,000	–	85.45	Sewage treatment
深圳北控豐泰投資有限公司#	PRC/Mainland China	RMB70,000,000	–	85.45	Sewage treatment
綿陽中科成污水淨化有限公司#	PRC/Mainland China	RMB40,000,000	–	85.45	Sewage treatment
廣州中業污水處理有限公司#	PRC/Mainland China	RMB85,000,000	–	85.45	Sewage treatment
江油中科成污水淨化有限公司#	PRC/Mainland China	RMB8,000,000	–	85.45	Sewage treatment
成都雙流中科成污水淨化有限公司#	PRC/Mainland China	RMB30,000,000	–	85.45	Sewage treatment
青島膠南中科成污水淨化有限公司#	PRC/Mainland China	RMB30,000,000	–	85.45	Sewage treatment
青島中科成污水淨化有限公司#	PRC/Mainland China	RMB42,417,182/ RMB96,679,640	–	96.99	Sewage treatment

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

(a) *Particulars of the Company's principal subsidiaries are as follows: (Continued)*

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
廣州中科成污水淨化有限公司 <sup>#</sup>	PRC/Mainland China	RMB40,000,000	–	85.45	Sewage treatment
台州市路橋中科成污水淨化有限公司 <sup>#</sup>	PRC/Mainland China	RMB55,500,000	–	85.45	Sewage treatment
成都龍泉中科成污水淨化有限公司 <sup>#</sup>	PRC/Mainland China	RMB27,600,000	–	85.45	Sewage treatment
荷澤中科成污水淨化有限公司 <sup>#</sup>	PRC/Mainland China	RMB30,000,000	–	85.45	Sewage treatment
濟南中科成水質淨化有限公司 <sup>#</sup>	PRC/Mainland China	RMB20,000,000	–	85.45	Sewage treatment
彭州中科成污水淨化有限公司 <sup>#</sup>	PRC/Mainland China	RMB50,000,000	–	85.45	Sewage treatment
佛山市三水中科成水質淨化有限公司 <sup>#</sup>	PRC/Mainland China	RMB76,000,000	–	85.45	Sewage treatment
永州市北控污水淨化有限公司 <sup>□</sup>	PRC/Mainland China	HK\$85,630,000	100	–	Sewage treatment
清鎮市北控水務有限公司	PRC/Mainland China	RMB26,500,000	–	60	Sewage treatment
海南北控水務有限公司	PRC/Mainland China	RMB5,000,000	–	100	Sewage treatment
昆明空港北控水務有限公司	PRC/Mainland China	RMB53,090,000	–	100	Sewage treatment
玉溪北控城投水質淨化有限公司	PRC/Mainland China	RMB91,380,000	–	100	Sewage treatment
北控水務集團(海南)有限公司 <sup>#</sup>	PRC/Mainland China	RMB100,000,000	–	76.9	Sewage treatment
百色中環水業有限公司 <sup>□</sup>	PRC/Mainland China	HK\$20,000,000	–	100	Sewage treatment
齊齊哈爾市北控污水淨化有限公司	PRC/Mainland China	RMB56,000,000	–	100	Sewage treatment
錦州市北控水務有限公司 <sup>□</sup>	PRC/Mainland China	RMB127,178,541	80	–	Sewage treatment and reclaimed water treatment
廣西貴港北控水務有限公司	PRC/Mainland China	RMB83,184,898	–	43.56*	Sewage treatment and water distribution
Be Water S.A.	Portugal	€11,987,000	–	100	Sewage treatment and water distribution
北京北控污水淨化及回用有限公司	PRC/Mainland China	RMB26,360,000	–	100	Reclaimed water treatment
成都北控蜀都投資有限公司 <sup>#</sup> ("Beikong Shudu")	PRC/Mainland China	RMB852,750,000	–	58.53	Construction services and sewage treatment

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

(a) *Particulars of the Company's principal subsidiaries are as follows: (Continued)*

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
北京建工環境發展有限責任公司 <sup>#</sup> ("BCEG Environmental")	PRC/Mainland China	RMB690,000,000	–	51.27	Construction services and investment holding
BEWG (M) Sdn Bhd	Malaysia	MYR75,000,000	–	100	Construction services
昆明捷運泰富環保工程有限公司 <sup>Ω</sup>	PRC/Mainland China	RMB100,000,000	–	70	Construction services
昆明捷運路橋發展有限公司 <sup>Ω</sup>	PRC/Mainland China	RMB150,000,000	–	70	Construction services
北控(洛陽)水環境開發有限公司 <sup>Ω</sup>	PRC/Mainland China	RMB300,000,000	–	100	Construction services
北京北控淨都水環境治理有限公司 <sup>Ω</sup>	PRC/Mainland China	RMB150,000,000/ RMB250,000,000	–	100	Construction services
佛山北控水環境開發有限公司 <sup>Ω</sup>	PRC/Mainland China	RMB100,000,000	–	70	Construction services
簡陽鴻琛建設工程有限公司	PRC/Mainland China	RMB250,000,000	–	60	Construction services
濱州北控西海水務有限公司 <sup>#</sup>	PRC/Mainland China	RMB50,000,000	–	71.61	Water distribution
遵義北控水務有限公司 <sup>Ω</sup>	PRC/Mainland China	RMB50,236,000	80	–	Water distribution
德清達閩制水有限公司 <sup>Ω</sup>	PRC/Mainland China	US\$11,960,000	–	100	Water distribution
BEWGI-UE NEWater (S) Pte Ltd	Singapore	SGD100,000	–	80	Reclaimed water treatment
泉州安平供水有限公司 <sup>Ω</sup>	PRC/Mainland China	US\$6,600,000	–	100	Water distribution
雲南北控水務有限公司	PRC/Mainland China	RMB180,000,000	–	100	Investment holding
北控中科成環保集團有限公司 <sup>#Ω</sup> ("BEWG Environmental")	PRC/Mainland China	RMB608,561,443	–	85.45	Consultancy services and investment holding
南京市市政設計研究院有限責任公司	PRC/Mainland China	RMB60,000,000	–	99.172	Consultancy services
北控水務(中國)投資有限公司 <sup>Ω</sup>	PRC/Mainland China	US\$500,000,000	100	–	Investment holding and consultancy services
上海北控亞同水務投資有限公司 <sup>#</sup>	PRC/Mainland China	RMB100,000,000	–	85.45	Investment holding
北控(鞍山)水務有限公司	PRC/Mainland China	RMB65,000,000	–	70	Sewage treatment
阜新市北控水務有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
北控(洛陽)水務發展有限公司	PRC/Mainland China	RMB800,000,000	–	70	Sewage treatment

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

(a) *Particulars of the Company's principal subsidiaries are as follows: (Continued)*

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
廣東鶴山北控水務有限公司	PRC/Mainland China	RMB78,330,000	–	70	Water distribution
金堂北控水環境治理有限公司 <sup>#</sup>	PRC/Mainland China	RMB30,000,000	–	57.25	Construction services
成都青白江中科成污水淨化有限公司 <sup>#</sup>	PRC/Mainland China	RMB40,000,000	–	85.45	Sewage treatment
錦州市小凌河北控水務有限公司	PRC/Mainland China	RMB33,250,000/ RMB66,500,000	–	100	Sewage treatment
廣安北控廣和水務有限公司 <sup>#</sup>	PRC/Mainland China	RMB70,000,000	–	85.45	Water distribution
北京稻香水質淨化有限公司 <sup>#</sup>	PRC/Mainland China	RMB58,000,000	–	85.45	Reclaimed water treatment
東莞市德高水務有限公司 <sup>□</sup>	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
北控彭州自來水有限公司 <sup>#</sup>	PRC/Mainland China	RMB73,600,000	–	59.82	Water distribution
北控南陽水務集團有限公司 <sup>#</sup>	PRC/Mainland China	RMB102,626,900/ RMB156,626,900	–	37.51*	Water distribution
永州市水務運營發展有限責任公司	PRC/Mainland China	RMB309,285,300/ RMB473,213,300	–	49*	Water distribution
成都北控陽安水環境治理有限公司	PRC/Mainland China	RMB567,000,000	–	57	Construction services
北控(濟源)污水淨化有限公司	PRC/Mainland China	RMB166,330,000	–	100	Sewage treatment
琪縣北控供水有限公司 <sup>#</sup>	PRC/Mainland China	RMB10,000,000	–	68.36	Water distribution
淮安市水利勘測設計研究院有限公司	PRC/Mainland China	RMB10,000,000	–	70	Consultancy service
平陰北控水環境開發有限公司	PRC/Mainland China	RMB280,000,000	–	90	Construction services
鄒平北控水務有限公司 <sup>#</sup>	PRC/Mainland China	RMB407,200,000	–	51.27	Water distribution
瀘州北控環保工程投資有限公司 <sup>#</sup>	PRC/Mainland China	RMB100,000,000	–	76.88	Construction services
內蒙古科源水務有限公司	PRC/Mainland China	RMB177,100,000	–	67	Water distribution



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

(a) *Particulars of the Company's principal subsidiaries are as follows: (Continued)*

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
北控 (成都雙流) 水務有限公司	PRC/Mainland China	RMB171,706,000/ RMB194,268,000	–	100	Sewage treatment
廣州增城北控水處理有限公司	PRC/Mainland China	RMB190,000,000	–	90	Sewage treatment
北控 (杭州) 環境工程有限公司 <sup>Ω</sup>	PRC/Mainland China	RMB687,000,000	99.7	–	Construction services
TRILITY Group PTY Ltd. (“Trility”)	Australia	AUD209,100,000	–	100	Investment holding
廣州增城北控水質淨化有限公司	PRC/Mainland China	RMB85,740,000	–	99.9	Sewage treatment
衡水京成水環境有限公司	PRC/Mainland China	RMB242,234,996/ RMB249,726,800	–	78.79	Construction service
攀枝花北控水務有限公司*	PRC/Mainland China	RMB100,000,000	–	55.54	Sewage treatment
北控 (蘭考縣) 污水處理有限公司 <sup>⊙</sup>	PRC/Mainland China	RMB85,500,000	–	100	Sewage treatment
濰坊北控水務發展有限公司 <sup>⊙</sup>	PRC/Mainland China	RMB130,000,000	–	100	Sewage treatment
Orgo Investments S.a.r.l.	Luxembourg	EUR12,500	–	100	Investment holding
BEWG (PT) S.A.	Portugal	EUR50,000	–	100	Sewage treatment and investment holding

<sup>Ω</sup> *These entities are registered as wholly-foreign-owned enterprises under PRC Law*

<sup>⊙</sup> *These entities are registered as Chinese-Foreign Equity Joint Venture enterprises under PRC law*

<sup>\*</sup> *These entities are accounted for as a subsidiary by virtue of the Company's control over its board of directors, which is the highest authority in these entities*

<sup>⊙</sup> *Incorporated during the year*

<sup>#</sup> *In December 2020, the Group entered into a capital injection agreement with an independent third party (“the investor”), pursuant to which the investor agreed to make cash contributions of RMB2 billion to BEWG Environmental. Upon completion of the capital injections, the Group's percentage of shareholding in BEWG Environmental was diluted from 100% to 85.45%. As a result, the Group's percentage of shareholding in subsidiaries under BEWG Environmental were also diluted accordingly.*

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

#### *(b) Controlled special purpose entity*

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

In accordance with HKFRS 10 *Consolidated Financial Statements*, the Company is required to consolidate a trust if the Company has control over the trust and can derive benefits from the contributions of employees who have been awarded the shares of the Company through their employment with the Group. The Company controls a structured entity which operate in Hong Kong, particulars of which are as follows:

<b>Structured entity</b>	<b>Principal activities</b>
Share Award Scheme Trust	Purchase, administers and holds the shares of the Company for the share award scheme for the benefit of eligible participants <i>(note 33)</i>

The Company has the power to direct the relevant activities of the Share Award Scheme and it has the ability to use its power over the entity to affect its exposure to returns. Therefore, it was considered as controlled structured entity of the Group.

## 2. BASIS OF PRESENTATION

Despite that the Group had net current liabilities of HK\$10.5 billion and capital commitments of approximately HK\$22.8 billion (comprising the Group's capital commitments and the Group's share of joint ventures' own capital commitments) in aggregate as at 31 December 2020, as detailed in note 51 to the financial statements, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group's cash flow projection which, inter alia, has taken into account the historical operating performance of the Group and the following:

- (a) the existing banking facilities available to the Group as at 31 December 2020 and on the assumption that such facilities will continue to be available from the Group's principal bankers;
- (b) certain of the above-mentioned total capital commitments are expected to be fulfilled by the Group after 2021 with reference to the terms of the respective agreements and the current status of the respective projects; and
- (c) the Company will consider equity financing when necessary.

Accordingly, these financial statements have been prepared on the going concern basis which assumes, inter alia, the realisation of assets and satisfaction of liabilities in the normal course of business.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.1 BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss which have been measured at fair value. The financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.1 BASIS OF PREPARATION *(Continued)*

### **Basis of consolidation** *(Continued)*

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

## 3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

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

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective and shall be applied retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendment did not have any impact on the financial position and performance of the Group as the Group did not get any rent concessions as a result of the covid-19 pandemic.
- (e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework<sup>2</sup></i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2<sup>1</sup></i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i>
HKFRS 17	<i>Insurance Contracts<sup>3</sup></i>
Amendments to HKFRS 17	<i>Insurance Contracts<sup>3, 6</sup></i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current<sup>3, 5</sup></i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use<sup>2</sup></i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract<sup>2</sup></i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>4</sup> No mandatory effective date yet determined but available for adoption

<sup>5</sup> As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

<sup>6</sup> As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

*(Continued)*

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

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

*(Continued)*

The Group had certain interest-bearing bank and other borrowings denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and various Interbank Offered Rates as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the “economically equivalent” criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

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

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity’s right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

*(Continued)*

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

*Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- *HKFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- *HKFRS 16 Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

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

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

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group recognises in relation to its interest in a joint operation:

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

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

### Related parties

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

- (a) the party is a person or a close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a holding company of the Group;

or

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Related parties** *(Continued)*

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the holding company of the Group.

### **Business combinations and goodwill**

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

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Business combinations and goodwill** *(Continued)*

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 June (2019: 30 June). For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Fair value measurement**

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

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

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

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its estimated residual value over its estimated useful life. The estimated useful lives of different categories of property, plant and equipment are as follows:

Buildings	20 to 30 years
Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Machinery	5 to 10 years
Sewage and water pipelines	10 to 20 years
Furniture, fixtures and office equipment	5 to 10 years
Motor vehicles	3 to 10 years

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

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

Construction in progress represents water pipelines, buildings under construction, structures, plant and machinery and other property, plant and equipment under construction or installation, and construction materials in relation to the water distribution and waste treatment businesses. Construction in progress is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Investment property**

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

Gains or losses arising from changes in the fair value of an investment property are included in the statement of profit or loss in the year in which they arise.

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

When a property occupied by the Group as an owner-occupied property becomes an investment property, any difference between the carrying amount and the fair value of the property at the date of change in use is accounted for as follows:

- (a) any resulting decrease in the carrying amount of the property is recognised in profit or loss in the period the change in use takes place; or
- (b) any resulting increase in the carrying amount is credited to the statement of profit or loss, to the extent that the increase reverses a previous impairment loss for that property, or restores the carrying amount of the property to an amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the property in prior periods; and any remaining part of the increase in the carrying amount is credited directly to equity in the property revaluation reserve. On subsequent disposal of the property, the relevant portion of the property revaluation reserve realised is transferred to retained profits as a movement in reserves.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

### *Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### (a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	Over the lease term or 20 to 34 years, whichever is shorter
Office building	Over the lease terms or 2 to 16 years, whichever is shorter
Machinery, sewage and water pipelines	Over the lease terms or 4 to 10 years, whichever is shorter
Office equipment	Over the lease terms or 5 to 10 years, whichever is shorter
Motor vehicles	Over the lease terms or 2 to 4 years, whichever is shorter

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Leases** *(Continued)*

#### *Group as a lessee (Continued)*

##### (b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

##### (c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

#### *Group as a lessor*

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Leases** *(Continued)*

#### *Group as a lessor (Continued)*

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance income on the net investment in the lease is recognised in the statement of profit or loss so as to provide a constant periodic rate of return over the lease terms.

### **Service concession arrangements**

#### *Consideration given by the grantor*

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash or another financial asset if nothing other than the passage of time is required before payment of the consideration is due and the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for loans and receivables under “Investments and other financial assets” below.

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

#### *Construction or upgrade services*

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

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

#### *Operating services*

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Service concession arrangements** *(Continued)*

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

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

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

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

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

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

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

#### *Operating concessions*

Operating concessions representing the rights to operate sewage and reclaimed water treatment and water distribution plants are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 20 to 40 years.

#### *Patents*

Purchased patents are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 10 years.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

#### *Computer software*

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the estimated useful lives of 5 to 10 years, as appropriate.

#### *Research and development costs*

All research costs are charged to the statement of profit or loss as incurred.

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

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

### **Impairment of non-financial assets**

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Investments and other financial assets**

#### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

#### *Subsequent measurement*

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

#### *Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Investments and other financial assets** *(Continued)*

#### *Financial assets designated at fair value through other comprehensive income (equity investments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Investments and other financial assets** *(Continued)*

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

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

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

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

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

### **Impairment of financial assets**

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

#### *General approach*

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Impairment of financial assets** *(Continued)*

#### *General approach (Continued)*

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default based on historical pattern and credit risk management practices of the Group. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Trade receivables, receivables under service concession arrangements, contract assets and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs as detailed below:

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial liabilities**

#### *Initial recognition and measurement*

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

The Group's financial liabilities include trade and other payables, bank and other borrowings, corporate bonds, notes payable and lease liabilities.

#### *Subsequent measurement*

##### *Financial liabilities at amortised cost (loans and borrowings)*

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

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

##### *Derecognition of financial liabilities*

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

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

##### *Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Offsetting of financial instruments**

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

### **Derivative financial instruments and hedge accounting**

#### *Initial recognition and subsequent measurement*

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

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

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

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Derivative financial instruments and hedge accounting** *(Continued)*

#### *Initial recognition and subsequent measurement (Continued)*

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is “an economic relationship” between the hedged item and the hedging instrument.
- The effect of credit risk does not “dominate the value changes” that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

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

#### *Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Derivative financial instruments and hedge accounting** *(Continued)*

#### *Current versus non-current classification*

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

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

### **Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

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

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs are determined on the weighted average basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

### **Treasury shares**

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Contract assets**

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

### **Contract liabilities**

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

### **Contract costs**

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

### **Cash and cash equivalents**

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Perpetual capital instruments**

Perpetual capital instruments with no contractual obligation to repay the principal or to pay any distribution are classified as part of equity.

### **Provisions**

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

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

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

### **Income tax**

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Income tax** *(Continued)*

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation/amortisation charge.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

### **Revenue recognition**

#### *Revenue from contracts with customers*

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Revenue recognition** *(Continued)*

#### *Revenue from contracts with customers (Continued)*

The Group satisfied a performance obligation and recognises revenue over time, if one of the following criteria is met:

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

If none of the above conditions are met, the Group recognises revenue at the point in time at which the performance obligation is satisfied.

If control of the asset transfers over time, revenue is recognised over the period of the contract 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 asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the surveyors' assessment of work performed and the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

When the Group provides more than one service in a service concession arrangement, the transaction price will be allocated to each performance obligation by reference to their relative stand-alone selling prices. If the standalone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Revenue recognition** *(Continued)*

#### *Revenue from contracts with customers (Continued)*

##### (a) Construction services

The Group's performance in respect of construction services creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the surveyors' assessment of work performed and the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

Revenue from the construction services under a service concession arrangement is estimated on a cost plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered.

##### (b) Sewage and reclaimed water treatment services and technical and consultancy services

The Group recognises revenue from sewage and reclaimed water treatment services and technical and consultancy services, upon the transfer of outcome of the customers. The performance obligation is satisfied upon delivery of related service outcome of the customers.

##### (c) Sales of water and machineries

Revenue from the sales of water and machineries is recognised at the point in time when control of the asset is transferred to the customer, generally when the customer obtains the physical possession or the legal title of the water or completed machineries and the Group has present right to payment and the collection of the consideration is probable.

#### *Revenue from other sources*

Rental income is recognised on a time proportion basis over the lease terms.

#### *Other income*

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Equity compensation benefits

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model.

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

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Equity compensation benefits** *(Continued)*

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

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account.

Options which are cancelled prior to their exercise date or lapse are deleted from the register of outstanding options. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits as a movement in reserves.

### **Shares held under share award scheme**

As disclosed in note 33 to the financial statements, the Group has set up a trust for the share award scheme, where the trust purchases shares issued by the Group, and the consideration paid by the Company, including any directly attributable incremental costs, is presented as “Shares held under share award scheme” and deducted from the Group’s equity.

### **Other employee benefits**

#### *Defined contribution plans*

The employees of the Group’s subsidiaries which operate in Mainland China, Singapore, Portugal and Malaysia are required to participate in central pension schemes operated by the local governments, the assets of which are held separately from those of the Group. Contributions are made by the subsidiaries based on a percentage of the participating employees’ salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension schemes. The employer contributions vest fully once made.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Other employee benefits** *(Continued)*

#### *Defined benefit plan*

Employees of a joint venture can enjoy other retirement benefits after retirement such as supplementary medical reimbursement, allowance and beneficiary benefits pursuant to a defined benefit plan of the joint venture. These benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method and is charged to the statement of profit or loss so as to spread the costs over the average service lives of the relevant employees in accordance with the actuarial report which contains valuation of the obligations for the year. The obligation is measured at the present value of the estimated future cash outflows using the interest rates of the PRC government bonds which have terms similar to those of related liabilities. Actuarial gains and losses are recognised in other comprehensive income immediately when they arise.

The past service costs are recognised as an expense on the straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, the pension plan, past service costs are recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled.

#### **Borrowing costs**

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

#### **Dividends**

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

### Construction work and service contracts

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

### Determination of fair value of contract revenue in respect of the construction services rendered

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

The construction margin is determined based on the gross profit margins of market comparables by identifying relevant peer groups, which are listed on various stock exchanges in the world. Criteria for selection include:

- (i) the peer firm must be in the field of the construction of infrastructure, majoring in sewage and reclaimed water treatment and seawater desalination facilities in the PRC; and
- (ii) information of the peer firm must be available and from a reliable source.



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### **Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the relevant business units to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The total carrying amount of goodwill as at 31 December 2020 was HK\$4,183,392,000 (2019: HK\$4,032,698,000) in aggregate, details of which are set out in note 17 to the financial statements.

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

The carrying amounts of items of property, plant and equipment, and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 3.4 to the financial statements. The recoverable amount is the higher of its fair value less costs of disposal and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

### **Provision for expected credit losses on receivables under service concession arrangements, trade and other receivables and amounts due from contract customers**

The policy for provision for expected credit losses on receivables under service concession arrangements, trade and other receivables and amounts due from contract customers of the Group is based on an ECL model. A considerable amount of estimation is required in assessing the available information which includes information about past events, current conditions and forecasts future economic conditions to estimate the ECL. The carrying amounts of receivables under service concession arrangements, trade and other receivables and amounts due from contract customers carried as assets in the consolidated statement of financial position as at 31 December 2020 were HK\$45,829,701,000 (2019: HK\$35,848,701,000), HK\$21,232,185,000 (2019: HK\$10,962,935,000), HK\$6,463,095,000 (2019: HK\$5,803,403,000) and HK\$45,405,869,000 (2019: HK\$49,635,302,000), respectively, further details of which are set out in notes 18, 27, 28 and 26 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China, Portugal, Malaysia, Singapore and Australia. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as a liability in the consolidated statement of financial position as at 31 December 2020 was HK\$1,436,514,000 (2019: HK\$1,294,006,000).

Deferred tax assets relating to certain deductible temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried as assets and liabilities in the consolidated statement of financial position as at 31 December 2020 were HK\$264,250,000 (2019: HK\$347,683,000) and HK\$4,096,254,000 (2019: HK\$3,480,180,000), respectively, details of which are set out in note 41 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 5. OPERATING SEGMENT INFORMATION

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

- (a) the sewage and reclaimed water treatment and construction services segment engages in the construction and operation of sewage and reclaimed water treatment plants and the provision of construction services for comprehensive renovation projects;
- (b) the water distribution services segment engages in the distribution and sale of piped water and the provision of related services; and
- (c) the technical and consultancy services and sales of machineries segment engages in the provision of consultancy services and sales of machineries related to sewage treatment, construction services for comprehensive renovation projects, and the licensing of technical know-how related to sewage treatment.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the year attributable to shareholders of the Company. The profit for the year attributable to shareholders of the Company is measured consistently with the Group's profit attributable to shareholders of the Company, except interest income on loans to joint ventures, interest income from joint venture partners, gain on deemed disposal of partial interest in associates, finance costs, share of profits and losses of certain joint ventures and associates, as well as head office and corporate income and expenses are excluded from such measurement.

Segment assets exclude corporate and head office assets as these assets are managed on a group basis.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2020

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sales of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Segment revenue</b> <i>(note 6)</i>	19,401,874	2,703,320	3,255,393	25,360,587
Cost of sales	(12,599,147)	(1,461,067)	(1,570,718)	(15,630,932)
Gross profit	6,802,727	1,242,253	1,684,675	9,729,655
<b>Segment results:</b>				
The Group	6,712,450	1,170,843	1,226,254	9,109,547
Share of profits and losses of:				
Joint ventures	540,027	237,364	1,489	778,880
Associates	25,971	–	–	25,971
	7,278,448	1,408,207	1,227,743	9,914,398
Corporate and other unallocated income and expenses, net				(1,131,686)
Share of profits of joint ventures and associates				255,611
Finance costs				(2,549,124)
Profit before tax				6,489,199
Income tax expense				(1,248,658)
Profit for the year				5,240,541
Profit for the year attributable to shareholders of the Company:				
Operating segments	5,664,860	1,022,955	1,077,764	7,765,579
Corporate and other unallocated items				(3,582,113)
				4,183,466

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2020 *(Continued)*

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sales of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Segment assets:</b>				
Operating segments	119,283,805	22,769,215	10,618,722	152,671,742
Corporate and other unallocated items				21,729,379
				174,401,121
<b>Other segment information:</b>				
Capital expenditure*				
– Operating segments	516,697	978,483	120,066	1,615,246
– Amount unallocated				20,108
				1,635,354
Depreciation				
– Operating segments	90,334	202,682	77,427	370,443
– Amount unallocated				72,427
				442,870
Amortisation of operating concessions	120,365	94,456	–	214,821
Amortisation of other intangible assets				
– Operating segments	1,300	2,583	3,690	7,573
– Amount unallocated				23,501
				31,074
Impairment/(reversal of impairment) of segment assets, net**				
– Operating segments	123,589	390	147,087	271,066
Provision for major overhauls	174,728	34,296	–	209,024

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2019

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sales of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Segment revenue</b> <i>(note 6)</i>	23,019,257	2,598,664	2,574,543	28,192,464
Cost of sales	(15,412,163)	(1,352,313)	(1,261,185)	(18,025,661)
Gross profit	7,607,094	1,246,351	1,313,358	10,166,803
<b>Segment results:</b>				
The Group	7,538,309	1,194,897	929,527	9,662,733
Share of profits and losses of:				
Joint ventures	502,077	171,223	–	673,300
Associates	2,393	–	86,032	88,425
	8,042,779	1,366,120	1,015,559	10,424,458
Corporate and other unallocated income and expenses, net				(610,230)
Share of profits of joint ventures and associates				174,656
Finance costs				(2,432,792)
Profit before tax				7,556,092
Income tax expense				(1,713,503)
Profit for the year				5,842,589
Profit for the year attributable to shareholders of the Company:				
Operating segments	6,183,529	1,012,243	840,513	8,036,285
Corporate and other unallocated items				(3,110,567)
				4,925,718

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2019 *(Continued)*

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sales of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Segment assets:</b>				
Operating segments	102,677,309	20,088,572	8,731,972	131,497,853
Corporate and other unallocated items				19,663,073
				151,160,926
<b>Other segment information:</b>				
Capital expenditure*				
– Operating segments	752,409	678,190	16,411	1,447,010
– Amount unallocated				77,251
				1,524,261
Depreciation				
– Operating segments	85,425	136,823	29,578	251,826
– Amount unallocated				67,882
				319,708
Amortisation of operating concessions	108,293	147,298	–	255,591
Amortisation of other intangible assets				
– Operating segments	1,515	3,164	1,643	6,322
– Amount unallocated				14,062
				20,384
Impairment of segment assets, net**				
– Operating segments	35,677	64,670	–	100,347
Provision for major overhauls	151,237	23,941	–	175,178

\* Capital expenditure consists of additions to property, plant and equipment, operating concessions and other intangible assets, excluding assets from the acquisition of subsidiaries and associates.

\*\* These amounts are recognised in the consolidated statement of profit or loss and included impairment against receivables under service concession arrangements, amounts due from contract customers, trade receivables and items of property, plant and equipment.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 5. OPERATING SEGMENT INFORMATION *(Continued)*

### Geographical information

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue from external customers:		
Mainland China	23,959,653	26,758,529
Elsewhere	1,400,934	1,433,935
	<b>25,360,587</b>	28,192,464
Non-current assets:		
Mainland China	31,277,742	26,733,265
Portugal	567,969	520,102
Australia	647,437	609,830
Elsewhere	278,808	245,059
	<b>32,771,956</b>	28,108,256

The revenue information by geographical area is based on the locations of the customers; while the non-current asset information shown above is based on the locations of the assets and excludes financial instruments, amounts due from contract customers and deferred tax assets.

### Information about major customers

During the year ended 31 December 2020, the Group has no transaction with any single external customer which contributed over 10% of the Group's total revenue for the year (2019: Nil).



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 6. REVENUE, INTEREST INCOME, OTHER INCOME AND GAINS, NET

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

	2020 HK\$'000	2019 HK\$'000
<b>Revenue from contracts with customers</b>		
Sewage and reclaimed water treatment services	6,257,537	5,141,788
Construction services	13,144,337	17,877,469
Water distribution services	2,703,320	2,598,664
Technical and consultancy services and sales of machineries	3,255,393	2,574,543
	<b>25,360,587</b>	<b>28,192,464</b>

Imputed interest income under service concession arrangements amounting to HK\$2,591,762,000 (2019: HK\$2,356,736,000) is included in the above revenue.

### Revenue from contracts with customers

#### (i) *Disaggregated revenue information*

As described in note 3.4 to the financial statements, revenue of sewage and reclaimed water treatment services, construction services and technical and consultancy services are recognised over time. Revenue of water distribution services and sales of machineries are recognised at a point in time.

Please refer to note 5 to the financial statements and the table above for the disclosure of disaggregated revenue.

#### (ii) *Performance Obligation*

The aggregate amount of the transaction prices allocated to the performance obligations that are unsatisfied (or partially unsatisfied) of BOT and Transfer-Operate-Transfer ("TOT") arrangements as at 31 December 2020 was HK\$217 billion (2019: HK\$207 billion). The performance obligations expected to be recognised in more than one year relate to the services of BOT and TOT arrangements. The amounts disclosed above do not include variable consideration which is constrained.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 6. REVENUE, INTEREST INCOME, OTHER INCOME AND GAINS, NET *(Continued)*

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Interest income</b>		
Bank interest income	237,293	202,459
Interest income on trade and other receivables with extended credit periods	431,232	282,647
Interest income on loans to joint ventures <sup>†</sup>	14,597	21,090
Others*	14,279	189,466
	<b>697,401</b>	<b>695,662</b>
<b>Other income</b>		
Gross rental income	26,982	36,539
Government grants <sup>§</sup>	133,345	67,080
Sludge treatment income	143,389	147,642
Pipeline installation income	205,643	254,261
Dividend income from equity investments at fair value through other comprehensive income	38,338	25,123
Others	603,647	664,028
	<b>1,151,344</b>	<b>1,194,673</b>
<b>Gains, net</b>		
Fair value gain on investment properties <i>(note 15)</i>	745	2,785
Gain on bargain purchase of subsidiaries <i>(note 46)</i>	23,188	78,275
Gain on disposal of subsidiaries, net <i>(note 47)</i>	5,912	33,126
Gain on deemed disposal of partial interest in associates	129,917	–
Gain on disposal of items of property, plant and equipment	1,469	–
	<b>161,231</b>	<b>114,186</b>
Other income and gains, net	<b>1,312,575</b>	<b>1,308,859</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 6. REVENUE, INTEREST INCOME, OTHER INCOME AND GAINS, NET *(Continued)*

\* *For the year ended 31 December 2020, the interest income recognised represented the interest income on a loan to a non-controlling equity holder of the Group, which was unsecured and bore interest at 3 to 5-year RMB loans published by the People's Bank of China rose up by 25% per annum.*

*For the year ended 31 December 2019, the interest income recognised represented the interest income on loans to joint venture partners of the Group, which were unsecured, bore interest and were fully settled with interest income of HK\$189,466,000 recognised in profit and loss during that year.*

†† *The interest income recognised mainly represented the interest income on loans to joint ventures of the Group, as further detailed in notes 20(d)(i) to the financial statements.*

§ *The government grants recognised during the year represented grants received from certain government authorities in respect of the fulfilment of certain specific duties by the Group.*

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 7. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	2019 <b>HK\$'000</b>
Cost of sewage and reclaimed water treatment services rendered		<b>2,519,673</b>	2,294,098
Cost of construction services		<b>9,959,109</b>	13,009,772
Cost of water distribution services		<b>1,366,611</b>	1,205,015
Cost of technical and consultancy services rendered and machineries sold		<b>1,570,718</b>	1,261,185
Depreciation of property, plant and equipment	<i>14</i>	<b>360,843</b>	269,253
Depreciation of right-of-use assets	<i>16</i>	<b>82,027</b>	50,455
Amortisation of operating concessions*	<i>18</i>	<b>214,821</b>	255,591
Amortisation of other intangible assets*	<i>19</i>	<b>31,074</b>	20,384
Lease payments not included in the measurement of lease liabilities	<i>16</i>	<b>2,989</b>	5,062
Auditor's remuneration		<b>12,000</b>	12,000
Employee benefit expense (including directors' remuneration ( <i>note 9</i> )):			
Salaries, allowances and benefits in kind		<b>2,403,700</b>	2,213,834
Equity-settled share award expense	<i>33(b)</i>	<b>27,244</b>	27,244
Pension scheme contributions		<b>268,480</b>	248,608
Welfare and other expenses		<b>450,192</b>	447,000
		<b>3,149,616</b>	2,936,686
Impairment of receivables under service concession arrangements, net	<i>18(b)</i>	<b>74,099</b>	64,733
Impairment/(reversal of impairment) of amounts due from contract customers, net	<i>26</i>	<b>(9,255)</b>	16,490
Impairment of trade receivables, net	<i>27(c)</i>	<b>131,410</b>	19,124
Impairment of other receivables, net	<i>28(d)</i>	<b>479,336</b>	70,566
Impairment of items of property, plant and equipment	<i>14</i>	<b>74,812</b>	–
Provision for major overhauls	<i>39</i>	<b>209,024</b>	175,178
Foreign exchange difference, net		<b>28,555</b>	19,477
Loss/(gain) on disposal of items of property, plant and equipment, net		<b>(1,469)</b>	894
Loss on deregistration of an associate		<b>1,362</b>	–
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		<b>3,787</b>	3,373

\* The amortisation of operating concessions and other intangible assets for the year is included in "Cost of sales" and "Administrative expenses" on the face of the consolidated statement of profit or loss, respectively.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 8. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on bank and other loans	1,745,803	1,601,244
Interest on corporate bonds	883,480	810,607
Interest on notes payable	148,679	218,984
Interest on lease liabilities	19,655	25,170
Total interest expense	2,797,617	2,656,005
Increase in discounted amounts of provision for major overhauls arising from the passage of time ( <i>note 39</i> )	24,262	21,016
Total finance costs	2,821,879	2,677,021
Less: Interest included in cost of construction services	(272,755)	(244,229)
	<b>2,549,124</b>	<b>2,432,792</b>

## 9. DIRECTORS' REMUNERATION

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

	Group 2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Fees	1,230	1,230
Other emoluments:		
Salaries, allowances and benefits in kind	20,127	19,250
Equity-settled share award expense	8,933	8,933
Pension scheme contributions	288	297
	<b>29,348</b>	<b>28,480</b>
	<b>30,578</b>	<b>29,710</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 9. DIRECTORS' REMUNERATION *(Continued)*

An analysis of the directors' remuneration, on a named basis, is as follows:

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Equity-settled share award expense <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
<b>Year ended 31 December 2020</b>					
Executive directors:					
Mr. Li Yongcheng ( <i>Chairman</i> )	–	–	–	–	–
Mr. E Meng	–	–	–	–	–
Mr. Jiang Xinhao	–	–	–	–	–
Mr. Zhou Min ( <i>Chief Executive Officer</i> )	120	9,022	5,520	102	14,764
Mr. Li Haifeng	120	3,580	479	18	4,197
Mr. Zhang Tiefu	120	2,610	479	84	3,293
Mr. Ke Jian	–	–	–	–	–
Ms. Sha Ning	–	–	–	–	–
Mr. Tung Woon Cheung Eric	120	–	256	–	376
Mr. Li Li	120	4,915	2,199	84	7,318
	<b>600</b>	<b>20,127</b>	<b>8,933</b>	<b>288</b>	<b>29,948</b>
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	–	–	120
Mr. Zhang Gaobo	150	–	–	–	150
Mr. Guo Rui	120	–	–	–	120
Mr. Wang Kaijun	120	–	–	–	120
Dr. Lee Man Chun Raymond	120	–	–	–	120
	<b>630</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>630</b>
<b>Total</b>	<b>1,230</b>	<b>20,127</b>	<b>8,933</b>	<b>288</b>	<b>30,578</b>

*Notes:*

- (1) Mr. E Meng is resigned as an executive director and vice chairman of the Company with effect from 3 January 2020.
- (2) Ms. Sha Ning is appointed as an executive director with effect from 3 January 2020.
- (3) Ms. Qi Xiaohong is deceased on 6 September 2019.
- (4) Mr. Li Yongcheng, Mr. Jiang Xinhao and Mr. Ke Jian waived to receive directors' remuneration for the years ended 31 December 2020 and 2019 amounting to HK\$130,000, HK\$120,000 and HK\$120,000, respectively. Ms. Sha Ning waived to receive director's remuneration for the year ended 31 December 2020 amounting to HK\$120,000. Mr. E Meng waived to receive director's remuneration for the year ended 31 December 2019 amounting to HK\$120,000. Save as the above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year (2019: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 9. DIRECTORS' REMUNERATION *(Continued)*

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Equity-settled share award expense <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
Year ended 31 December 2019					
Executive directors:					
Mr. Li Yongcheng ( <i>Chairman</i> )	-	-	-	-	-
Mr. E Meng ( <i>Vice Chairman</i> )	-	-	-	-	-
Mr. Jiang Xinhao	-	-	-	-	-
Mr. Zhou Min ( <i>Chief Executive Officer</i> )	120	8,325	5,520	79	14,044
Mr. Li Haifeng	120	3,548	479	18	4,165
Mr. Zhang Tiefu	120	2,551	479	100	3,250
Ms. Qi Xiaohong	-	-	-	-	-
Mr. Ke Jian	-	-	-	-	-
Mr. Tung Woon Cheung Eric	120	-	256	-	376
Mr. Li Li	120	4,826	2,199	100	7,245
	600	19,250	8,933	297	29,080
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	-	-	-	120
Mr. Zhang Gaobo	150	-	-	-	150
Mr. Guo Rui	120	-	-	-	120
Mr. Wang Kaijun	120	-	-	-	120
Dr. Lee Man Chun Raymond	120	-	-	-	120
	630	-	-	-	630
<b>Total</b>	<b>1,230</b>	<b>19,250</b>	<b>8,933</b>	<b>297</b>	<b>29,710</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2019: two directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining two (2019: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	<b>3,713</b>	7,333
Performance related bonuses	<b>4,793</b>	5,454
Equity-settled share award expense	<b>4,079</b>	4,079
Pension scheme contributions	<b>167</b>	336
	<b>12,752</b>	17,202

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

	<b>Number of employees</b>	
	<b>2020</b>	2019
HK\$4,500,001 to HK\$5,000,000	–	1
HK\$6,000,001 to HK\$6,500,000	<b>2</b>	2
	<b>2</b>	3



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 11. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2020. No provision for Hong Kong profits tax had been made in respect of the year ended 31 December 2019 as the Group did not generate any assessable profits arising in Hong Kong during that year.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current – Hong Kong	12,282	–
Current – Mainland China	688,038	836,219
Current – Elsewhere	8,689	47,202
Overprovision in prior years	(7,889)	(14,903)
Deferred ( <i>note 41</i> )	547,538	844,985
Total tax expense for the year	<b>1,248,658</b>	1,713,503

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 11. INCOME TAX EXPENSE *(Continued)*

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

### Year ended 31 December 2020

	Hong Kong and overseas		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(1,220,845)		7,710,044		6,489,199	
Tax expense/(credit) at the statutory tax rate	(195,036)	16.0	1,927,511	25.0	1,732,475	26.7
Lower tax rates of specific provinces or enacted by local authorities	-	-	(195,961)	(2.5)	(195,961)	(3.0)
Tax concession	-	-	(230,345)	(3.0)	(230,345)	(3.5)
Adjustments in respect of current tax of previous periods	-	-	(7,889)	(0.1)	(7,889)	(0.1)
Profits and losses attributable to joint ventures and associates	(12,506)	1.0	(255,171)	(3.3)	(267,677)	(4.1)
Income not subject to tax	(149,209)	12.2	(112,931)	(1.5)	(262,140)	(4.0)
Expenses not deductible for tax	349,338	(28.6)	139,649	1.8	488,987	7.5
Withholding tax of 5% on the distributable profit of the Group's PRC subsidiary and joint venture	-	-	13,326	0.2	13,326	0.2
Tax losses utilised from previous periods	-	-	(78,957)	(1.0)	(78,957)	(1.2)
Tax losses not recognised as deferred tax assets	28,553	(2.3)	28,286	0.3	56,839	0.7
Tax expense at the Group's effective tax rate	21,140	(1.7)	1,227,518	15.9	1,248,658	19.2

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 11. INCOME TAX EXPENSE *(Continued)*

Year ended 31 December 2019

	Hong Kong and overseas		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(1,355,671)		8,911,763		7,556,092	
Tax expense/(credit) at the statutory tax rate	(208,915)	15.4	2,228,956	25.0	2,020,041	26.7
Lower tax rates of specific provinces or enacted by local authorities	–	–	(142,171)	(1.6)	(142,171)	(1.9)
Tax concession	–	–	(193,951)	(2.2)	(193,951)	(2.6)
Adjustments in respect of current tax of previous periods	–	–	(14,903)	(0.2)	(14,903)	(0.2)
Profits and losses attributable to joint ventures and associates	(90)	–	(234,880)	(2.6)	(234,970)	(3.0)
Income not subject to tax	(61,572)	4.5	(107,096)	(1.2)	(168,668)	(2.2)
Expenses not deductible for tax	299,970	(22.1)	125,956	1.5	425,926	5.6
Withholding tax of 5% on the distributable profit of the Group's PRC subsidiary and joint venture	–	–	12,239	0.1	12,239	0.2
Tax losses utilised from previous periods	–	–	(35,453)	(0.4)	(35,453)	(0.5)
Tax losses not recognised as deferred tax assets	29,321	(2.1)	16,092	0.2	45,413	0.6
Tax expense at the Group's effective tax rate	58,714	(4.3)	1,654,789	18.6	1,713,503	22.7

The share of tax attributable to associates and joint ventures amounting to HK\$93,875,000 (2019: HK\$58,620,000) and HK\$133,311,000 (2019: HK\$149,545,000), respectively, is included in "share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

# NOTES TO FINANCIAL STATEMENTS

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## 12. CASH DISTRIBUTIONS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interim – HK8.4 cents (2019: HK10.7 cents) per ordinary share	<b>841,780</b>	1,071,926
Proposed final – HK7.8 cents (2019: HK7.8 cents) per ordinary share	<b>781,684</b>	781,653
	<b>1,623,464</b>	1,853,579

The proposed final cash distribution out of the contributed surplus account for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the year attributable to shareholders of the Company, adjusted to reflect the distribution related to the perpetual capital instrument, for the year ended 31 December 2020, and the weighted average number of 10,021,261,445 (2019: 9,918,477,685) ordinary shares in issue less the weighted average number of 28,115,380 (2019: 22,170,910) ordinary shares held under the share award scheme of the Company during the year.

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

# NOTES TO FINANCIAL STATEMENTS

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## 13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(Continued)

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Earnings		
Profit for the year attributable to shareholders of the Company	4,183,466	4,925,718
Distribution related to the perpetual capital instrument	(29,597)	–
Profit used in the basic earnings per share calculation	4,153,869	4,925,718
Effect of dilution on earnings in respect of share options of an associate	(2,946)	(3,434)
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	4,150,923	4,922,284
	2020	2019
Number of ordinary shares		
Weighted average number of ordinary shares in issue less the weighted average number of shares held under the share award scheme during the year, used in the basic earnings per share calculation	9,993,146,065	9,896,306,775
Effect of dilution on weighted average number of ordinary shares		
– Share options which have dilutive effect	77,603,573	125,992,545
– Share awards which have dilutive effect	13,102,049	15,876,980
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	10,083,851,687	10,038,176,300

# NOTES TO FINANCIAL STATEMENTS

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## 14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, and sewage and water pipelines <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31 December 2020</b>							
At 1 January 2020:							
Cost	2,656,535	138,485	1,290,219	338,169	332,127	496,254	5,251,789
Accumulated depreciation	(437,327)	(61,082)	(278,817)	(157,152)	(151,338)	-	(1,085,716)
Net carrying amount	2,219,208	77,403	1,011,402	181,017	180,789	496,254	4,166,073
Net carrying amount:							
At 1 January 2020	2,219,208	77,403	1,011,402	181,017	180,789	496,254	4,166,073
Acquisition of subsidiaries ( <i>note 46</i> )	4,742	-	-	1,397	2,008	-	8,147
Additions	171,429	1,159	421,561	42,535	63,513	60,499	760,696
Depreciation provided during the year	(118,945)	(11,868)	(140,638)	(37,468)	(51,924)	-	(360,843)
Disposal of subsidiaries ( <i>note 47</i> )	(6,479)	-	(16,194)	(1,658)	(642)	-	(24,973)
Disposals	(13)	-	(3,950)	(11,227)	(7,259)	-	(22,449)
Impairment ( <i>note a</i> )	(46,902)	-	(22,517)	(5,393)	-	-	(74,812)
Transfers and reclassifications	3,176	-	871	117	-	(4,164)	-
Exchange realignment	126,625	3,965	84,399	7,326	10,454	15,621	248,390
At 31 December 2020	2,352,841	70,659	1,334,934	176,646	196,939	568,210	4,700,229
At 31 December 2020:							
Cost	2,989,389	147,790	1,815,193	380,490	398,976	568,210	6,300,048
Accumulated depreciation and impairment	(636,548)	(77,131)	(480,259)	(203,844)	(202,037)	-	(1,599,819)
Net carrying amount	2,352,841	70,659	1,334,934	176,646	196,939	568,210	4,700,229

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, and sewage and water pipelines <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31 December 2019</b>							
At 1 January 2019 (restated):							
Cost	2,240,579	158,346	1,144,367	222,546	241,563	524,771	4,532,172
Accumulated depreciation	(309,650)	(72,674)	(190,371)	(131,713)	(98,331)	–	(802,739)
Net carrying amount	1,930,929	85,672	953,996	90,833	143,232	524,771	3,729,433
Net carrying amount:							
At 1 January 2019	1,930,929	85,672	953,996	90,833	143,232	524,771	3,729,433
Acquisition of subsidiaries <i>(note 46)</i>	–	–	217,326	6,438	1,995	21,105	246,864
Additions	194,688	8,750	46,874	127,464	87,146	18,578	483,500
Transfer from investment properties <i>(note 15)</i>	234,540	–	–	–	–	–	234,540
Depreciation provided during the year	(108,830)	(15,795)	(82,282)	(30,901)	(31,445)	–	(269,253)
Disposal of subsidiaries <i>(note 47)</i>	–	–	(108)	(197)	(254)	–	(559)
Disposals	–	–	(62,885)	(10,427)	(1,620)	–	(74,932)
Transfers and reclassifications	4,886	–	650	43	–	(5,579)	–
Exchange realignment	(37,005)	(1,224)	(62,169)	(2,236)	(18,265)	(62,621)	(183,520)
At 31 December 2019	2,219,208	77,403	1,011,402	181,017	180,789	496,254	4,166,073
At 31 December 2019:							
Cost	2,656,535	138,485	1,290,219	338,169	332,127	496,254	5,251,789
Accumulated depreciation	(437,327)	(61,082)	(278,817)	(157,152)	(151,338)	–	(1,085,716)
Net carrying amount	2,219,208	77,403	1,011,402	181,017	180,789	496,254	4,166,073

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

At 31 December 2020, certain land use rights and certain buildings situated in Mainland China with an aggregate carrying amount of HK\$1,135,862,000 (2019: HK\$1,111,693,000) were pledged to secure certain bank loans granted to the Group (note 36).

*Note:*

- (a) As at 31 December 2020, the Group had property, plant and equipment of HK\$97,993,000 relating to a loss-making non-wholly-owned subsidiary. As mentioned in note 4 to the financial statements, given the subsidiary was loss-making during the year, an impairment assessment has been performed by Beijing North Asia Asset Assessment Firm, independent professionally qualified valuers, based on fair value less costs of disposal using direct sales comparison and depreciated replacement cost approaches. As a result of the impairment assessment, an impairment loss of HK\$74,812,000 (2019: Nil) was recognised to profit or loss for certain items of property, plant and equipment because the production facilities, machinery and equipment were under-utilised during the year.

## 15. INVESTMENT PROPERTIES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Carrying amount at 1 January	806,785	1,052,492
Transfer to property, plant and equipment ( <i>note 14</i> )	–	(234,540)
Fair value gain on revaluation	745	2,785
Exchange realignment	48,068	(13,952)
Carrying amount at 31 December	<b>855,598</b>	806,785

*Notes:*

- (a) The Group's investment properties consist of a portion of an office building and a commercial building situated in Mainland China and are held under long term leases.
- (b) The investment properties are leased to third parties, a joint venture and associates under operating lease arrangements, further summary of which are included in note 16 to the financial statements.
- (c) In 2019, certain floors of the Group's office building that were previously leased out were changed to owner-occupied and the related floors were transferred from investment properties to property, plant and equipment accordingly.
- (d) As at 31 December 2020, one of the Group's investment properties with a carrying amount of HK\$578,159,000 (2019: HK\$545,360,000) was pledged to a bank to secure a bank loan granted to the Group (note 36).



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 15. INVESTMENT PROPERTIES *(Continued)*

*Notes: (Continued)*

- (e) The Group's investment properties were revalued on 31 December 2020 and 2019 by Beijing North Asia Asset Assessment Firm, independent professionally qualified valuers, at HK\$855,598,000 (2019: HK\$806,785,000). Each year, management decides to appoint which external valuers to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Each year, management has discussions with the valuers on the valuation assumptions and valuation results.

The fair value of the Group's investment properties was measured using significant unobservable inputs (Level 3 of fair value hierarchy). During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2019: Nil).

### Fair value hierarchy disclosure

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Office and commercial buildings HK\$'000
Carrying amount at 1 January 2019	1,052,492
Transfer to property, plant and equipment	(234,540)
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	2,785
Exchange realignment	(13,952)
Carrying amount at 31 December 2019 and 1 January 2020	806,785
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	745
Exchange realignment	48,068
Carrying amount at 31 December 2020	855,598

Set out below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

Valuation technique	Significant unobservable inputs	31 December 2020	Range
			31 December 2019
Income capitalisation method	Daily estimated rental value (per sq. m)	RMB4.67 to RMB9.21	RMB4.62 to RMB10.53
	Rent growth	2% from 2022	2% from 2021
	Discount rate	6%	6%
Direct comparison method	Market unit sale rate (per sq. m)	RMB56,366 to RMB107,065	RMB56,144 to RMB108,620

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 15. INVESTMENT PROPERTIES *(Continued)*

*Notes: (Continued)*

(e) *(Continued)*

Under the income capitalisation method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flows in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of the property. The periodic cash flow is estimated as gross income less operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase/(decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the discount rate in isolation would result in a significant (decrease)/increase in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and an opposite change in the discount rate.

Under the direct comparison method, fair value is estimated using the comparison method by making references to comparable market transactions and adjusted for differences on location and physical attributes, such as saleable area of the building. The fair value measurement is positively correlated to the market unit sale rate.

## 16. LEASES

### **The Group as a lessee**

The Group has lease contracts for office building and various items of machinery, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 20-34 years, and no ongoing payments will be made under the terms of these land leases.

Lease terms of different assets generally are as follows:

Office buildings	Over the lease terms or 2 – 16 years, whichever is shorter
Office equipment	Over the lease terms or 5 – 10 years, whichever is shorter
Machinery, sewage and water pipelines	Over the lease terms or 4 – 10 years, whichever is shorter
Motor vehicles	Over the lease terms or 2 – 4 years, whichever is shorter

Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. No lease contracts have extension and termination options.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 16. LEASES *(Continued)*

### (a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Office building <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Leasehold land <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Machinery, sewage and water pipelines <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2019	94,015	403	58,505	8,249	493,365	654,537
Additions	753	–	91,655	692	54,434	147,534
Arising from acquisition <i>(note 46)</i>	–	–	13,729	–	–	13,729
Depreciation charge	(15,036)	(87)	(1,641)	(2,727)	(30,964)	(50,455)
Exchange realignment	(1,831)	(4)	(2,087)	(122)	(7,015)	(11,059)
As at 31 December 2019 and 1 January 2020	77,901	312	160,161	6,092	509,820	754,286
Additions	12,315	37	54,469	873	–	67,694
Depreciation charge	(20,616)	(122)	(21,414)	(3,114)	(36,761)	(82,027)
Exchange realignment	5,344	16	11,502	407	29,797	47,066
As at 31 December 2020	74,944	243	204,718	4,258	502,856	787,019

### (b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Carrying amount at 1 January	523,343	562,304
New leases	13,225	55,879
Accretion of interest recognised during the year	19,655	25,170
Payments	(171,499)	(113,526)
Exchange realignment	24,200	(6,484)
Carrying amount at 31 December	408,924	523,343
Analysed into:		
Current portion	108,780	128,908
Non-current portion	300,144	394,435

The maturity analysis of lease liabilities is disclosed in note 54 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 16. LEASES *(Continued)*

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on lease liabilities	19,655	25,170
Depreciation charge of right-of-use assets	82,027	50,455
Expense relating to short-term leases (included in administrative expenses)	2,989	5,062
<b>Total amount recognised in profit or loss</b>	<b>104,671</b>	<b>80,687</b>

(d) The total cash outflow for leases is disclosed in consolidated statement of cash flows.

### The Group as a lessor

The Group leases its investment properties (note 15) consisting of certain floors and portion of its office building and a commercial building in the PRC under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was HK\$26,982,000 (2019: HK\$36,539,000), details of which are included in note 6 to the financial statements.

At 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within one year	23,470	12,616
In the second to fifth years, inclusive	4,333	13,666
	<b>27,803</b>	<b>26,282</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 17. GOODWILL

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	4,032,698	3,803,072
Acquisition of subsidiaries ( <i>note 46</i> )	32,784	310,896
Disposal of subsidiaries ( <i>note 47</i> )	(9,856)	(7,665)
Exchange realignment	127,766	(73,605)
At 31 December	4,183,392	4,032,698

### Impairment testing of goodwill

The carrying amount of the goodwill acquired through acquisitions of subsidiaries and non-controlling interests is allocated to the relevant business units of the individual operating segments of the Group for impairment testing, which is summarised as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Sewage and reclaimed water treatment and construction services segment	2,008,758	1,953,666
Water distribution services segment	997,273	969,968
Technical and consultancy services and sale of machineries segment	1,177,361	1,109,064
	4,183,392	4,032,698

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 17. GOODWILL *(Continued)*

### **Impairment testing of goodwill** *(Continued)*

The recoverable amounts of the relevant business units in each of the above operating segments have been determined by reference to business valuations performed by Valtech Valuation Advisory Limited (2019: Valtech Valuation Advisory Limited), independent professionally qualified valuers, based on fair value less costs of disposal using cash flow projections which are based on financial forecast approved by senior management covering a period of 10 years and based on the assumption that the sizes of the operations remain constant perpetually. The discount rates applied to the cash flow projections ranged from 9.1% to 11.50% (2019: 10.82% to 12.00%) for the business units of the sewage and reclaimed water treatment and construction services segment, the water distribution services segment, and the technical and consultancy services and sale of machineries segment, which are determined by reference to the average rates for similar industries and the business risks of the relevant business units. A growth rate of 2.5% (2019: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors of the Company, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2020 (2019: Nil).

### *Key assumptions used in estimations of the recoverable amounts*

The following describes each key assumption adopted by management in the preparation of the cash flow projections for the purpose of impairment testing of goodwill:

- **Budgeted revenue**
  - in respect of the revenue from the sewage and reclaimed water treatment and construction services segment and the water distribution services segment, the budgeted revenue is based on the projected sewage and reclaimed water treatment and water distribution volume, and the latest sewage and reclaimed water treatment and water tariff charges up to the date of valuation.
  - in respect of the revenue from the technical and consultancy services and sale of machineries segment, the budgeted revenue is based on the expected growth rate of the market.
- **Budgeted gross margins**
  - the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved during the six months ended 30 June for the same year, increased for expected efficiency improvements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 17. GOODWILL *(Continued)*

### Impairment testing of goodwill *(Continued)*

#### Key assumptions used in estimations of the recoverable amounts *(Continued)*

- **Discount rates**
  - The discount rates used are after tax and reflect specific risks of the respective segments.
  - The pre-tax discount rates applied in the cash flow projections ranged from 11.22% to 14.77% (2019: 12.73% to 15.49%) for the business units of the sewage and reclaimed water treatment and construction services segment, the water distribution services segment, and the technical and consultancy services and sale of machineries segment.
- **Business environment**
  - There have been no major changes in the existing political, legal and economic conditions in Mainland China, Singapore, Portugal, Australia and New Zealand.

## 18. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in Mainland China, Singapore, Portugal and Australia on a BOT or a TOT basis in respect of its sewage and reclaimed water treatment, water distribution and seawater desalination services. These service concession arrangements generally involve the Group as an operator in (i) constructing sewage and reclaimed water treatment plants, water distribution facilities and a seawater desalination plant (collectively, the “Facilities”) for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 12 to 50 years (the “Service Concession Periods”), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authorities as grantors will control and regulate the scope of services that the Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the terms of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in Mainland China, Singapore, Portugal, Australia that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations imposed on the Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods, and arrangements for arbitrating disputes.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

A summary of the major terms of the principal service concession arrangements as at 31 December 2020 is as follows:

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m <sup>3</sup> /day)	Service concession period
<b>Subsidiaries:</b>							
1.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠一期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	TOT on sewage treatment	100,000	30 years from 2002 to 2032
2.	廣州中業污水處理有限公司	廣州市花都區新華污水處理廠一期	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT on sewage treatment	100,000	25 years from 2008 to 2033
3.	深圳北控創新投資有限公司	深圳市龍崗區橫嶺污水處理廠二期	Shenzhen, Guangdong Province, the PRC	深圳市水務局	TOT on sewage treatment	400,000	20 years from 2011 to 2031
4.	深圳北控豐泰投資有限公司	深圳市龍崗區橫嶺污水處理廠一期	Shenzhen, Guangdong Province, the PRC	深圳市龍崗區人民政府	BOT on sewage treatment	200,000	25 years from 2003 to 2028
5.	成都青白江中科成污水淨化有限公司	成都市青白江區污水處理廠	Chengdu, Sichuan Province, the PRC	成都市青白江區人民政府	TOT on sewage treatment	100,000	25 years from 2009 to 2034
6.	錦州市北控水務有限公司	錦州市一期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	TOT on sewage treatment	100,000	30 years from 2009 to 2039
7.	錦州市北控水務有限公司	錦州市二期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	BOT on sewage treatment	100,000	30 years from 2011 to 2041
8.	錦州市小凌河北控水務有限公司	錦州市三期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市人民政府	TOT on sewage treatment	100,000	30 years from 2015 to 2045
9.	玉溪北控城投水質淨化有限公司	玉溪市污水處理廠	Yuxi, Yunnan Province, the PRC	玉溪市住房和城鄉建設局	TOT on sewage treatment	100,000	30 years from 2010 to 2040
10.	廣西貴港北控水務有限公司	貴港市城西污水處理廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on sewage treatment	100,000	30 years from 2008 to 2038
11.	廣西貴港北控水務有限公司	南江水廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on water distribution	100,000	30 years from 2008 to 2038
12.	遵義北控水務有限公司	遵義市青山供水廠	Zunyi, Guizhou Province, the PRC	遵義市供排水有限責任公司	BOT on water distribution	100,000	25 years from 2010 to 2035
13.	衡陽市海朗水務有限公司	衡陽市珠暉自來水制水廠	Hengyang, Hunan Province, the PRC	衡陽市建設局	BOT on water distribution	200,000	30 years (Not yet started)



# NOTES TO FINANCIAL STATEMENTS

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## 18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m <sup>3</sup> /day)	Service concession period
<b>Subsidiaries: <i>(Continued)</i></b>							
14.	廣安北控廣和水務有限公司	廣安新橋園區供水廠(一期)	Guangan, Sichuan Province, the PRC	廣安市人民政府	BOT on water distribution	100,000	30 years from 2015 to 2045
15.	廣安北控廣和水務有限公司	廣安新橋園區供水廠(二期)	Guangan, Sichuan Province, the PRC	廣安市人民政府	BOT on water distribution	100,000	30 years (Not yet started)
16.	昆明空港北控城投水質淨化有限公司	昆明空港經濟區污水處理廠(二期)	Kunming, Yunnan Province, the PRC	昆明市人民政府	BOT on sewage treatment	130,000	20 years (Not yet started)
17.	成都北控蜀都投資有限公司	成都合作污水處理廠	Chengdu, Sichuan Province, the PRC	成都市郫縣水務局	TOT on sewage treatment	100,000	25 years from 2012 to 2037
18.	東莞市德高水務有限公司	東莞市橫瀝東坑合建污水處理廠	Dongguan, Guangdong Province, the PRC	高埗鎮人民政府	BOT on sewage treatment	120,000	25 years from 2008 to 2033
19.	北控水務集團(海南)有限公司	白沙門污水處理廠	Haikou, Hainan Province, the PRC	海口市水務局	BOT on sewage treatment	200,000	25 years from 2010 to 2035
20.	德清達閩制水有限公司	德清縣乾元淨水廠項目	Deqing, Zhejiang Province, the PRC	德清縣建設局	BOT on water distribution	100,000	25 years from 2007 to 2032
21.	北控(鞍山)水務有限公司	鞍山市永寧污水處理廠項目	Anshan, Liaoning Province, the PRC	鞍山市環境保護局	BOT on sewage treatment	100,000	30 years from 2015 to 2045
22.	阜新市北控水務有限公司	遼寧省阜新市開發區污水處理廠項目	Fuxin, Liaoning Province, the PRC	阜新市人民政府	TOT on sewage treatment	100,000	30 years from 2015 to 2045
23.	北控(洛陽)水務發展有限公司	澗西污水處理廠項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045
24.	北控(洛陽)水務發展有限公司	瀘東污水處理廠項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045
25.	北控(洛陽)水務發展有限公司	新區污水處理廠項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	100,000	30 years from 2015 to 2045
26.	廣東鶴山北控水務有限公司	鶴山市沙坪鎮第二供水廠項目	Jiangmen, Guangdong Province, the PRC	鶴山市人民政府	BOT on water distribution	195,000	30 years from 2015 to 2045

# NOTES TO FINANCIAL STATEMENTS

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## 18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m <sup>3</sup> /day)	Service concession period
<b>Subsidiaries: <i>(Continued)</i></b>							
27.	北控(濟源)污水淨化有限公司	濟源市城市污水廠	Jiyuan, Henan Province, the PRC	濟源市住房和城鄉建設局	TOT on sewage treatment	100,000	30 years from 2016 to 2046
28.	永州市水務運營有限責任公司	永州曲河供水廠一期	Yongzhou, Hunan Province, the PRC	永州市城市管理行政執法局	TOT on water distribution	100,000	30 years from 2016 to 2046
29.	凱裡北控清源水務有限公司	凱裡市城鎮供排水項目	Kaili, Guizhou Province, the PRC	凱裡水務局	TOT on water distribution	144,000	30 years from 2016 to 2046
30.	棗莊北控智信水務有限公司	棗莊市區供水廠	Zaozhuang City, Shandong Province, the PRC	棗莊市人民政府	BOT on water distribution	110,000	30 years from 2013 to 2043
31.	南安實康水務有限公司	福建南安供水廠一期	Nanan, Fujian Province, the PRC	福建南安市人民政府	TOT on water distribution	170,000	30 years from 2013 to 2043
32.	山東昌樂實康水業有限公司	山東昌樂供水廠	Changle, Shandong Province, the PRC	山東省昌樂人民政府	TOT on water distribution	100,000	30 years from 2013 to 2043
33.	昌樂實康原水有限公司	山東昌樂原水廠	Changle, Shandong Province, the PRC	山東省昌樂人民政府	BOT on water distribution	100,000	30 years from 2013 to 2043
34.	南京城東北控污水處理有限公司	南京市城東污水處理廠一期	Nanjing, Jiangsu Province, the PRC	南京市城鄉建設委員會	TOT on sewage treatment	100,000	30 years from 2015 to 2045
35.	南京城東北控污水處理有限公司	南京市城東污水處理廠二期	Nanjing, Jiangsu Province, the PRC	南京市城鄉建設委員會	TOT on sewage treatment	100,000	30 years from 2015 to 2045
36.	常德北控碧海水務有限責任公司	常德柳葉湖污水廠	Changde City, Hunan Province, the PRC	常德市市政公用事業管理局	TOT on sewage treatment	100,000	15 years from 2016 to 2031
37.	BEWGI-UE NEWater (S) Pte. Ltd.	新加坡樟宜第二新生水廠	Singapore	新加坡公用事業局	DBOO on water recycling	228,000	25 years from 2014 to 2039
38.	延吉京城環保產業有限公司	延吉污水處理廠一期	Yanji City, Jilin Province, the PRC	延吉市人民政府	TOT on sewage treatment	100,000	30 years from 2014 to 2044
39.	永州市北控污水淨化有限公司	永州市冷水灘區下河線污水處理廠	Yongzhou, Hunan Province, the PRC	湖南省永州市公用事業管理局	BOT on sewage Treatment	100,000	30 years from 2008 to 2038

# NOTES TO FINANCIAL STATEMENTS

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## 18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m <sup>3</sup> /day)	Service concession period
<b>Subsidiaries:</b> <i>(Continued)</i>							
40.	厚街海清污水處理有限公司	厚街沙塘污水處理廠	Dongguan, Guangdong Province, the PRC	厚街鎮人民政府	BOT on sewage treatment	100,000	25 years from 2009 to 2033
41.	北控(洛陽)水務發展有限公司	新區污水處理廠二期	Louyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	100,000	30 years from 2015 to 2045
42.	內蒙古泰弘生態環境發展股份有限公司	包頭市大青山生態應急水源工程	Baotou, Inner Mongolia, the PRC	包頭市人民政府	BOT on water supply	190,000	30 years from 2012 to 2042
43.	Macarthur Water Pty Ltd.	Macarthur	Sydney, Australia	Sydney Water	BOT on water supply	265,000	35 years from 1995 to 2030
44.	北控(洛陽)水務發展有限公司	澗西污水處理廠二期擴建工程	Luoyang, Henan Province, the PRC	洛陽市水務局	BOT on sewage treatment	100,000	30 years from 2015 to 2045
45.	永州水務向家亭水質淨化有限公司	向家亭污水處理廠提標改造工程	Yongzhou, Hunan Province, the PRC	永州市城市管理行政執法局	BOT on sewage treatment	100,000	27 years from 2019 to 2045
46.	湖南北控水務發展有限公司	長沙市敢勝垵污水處理廠及配套工程一期	Changsha, Hunan Province, the PRC	長沙市住房和城鄉建設委員會	TOT on sewage treatment	100,000	26 years from 2019 to 2045
47.	台州市黃岩北控污水處理有限公司	黃岩江口污水處理廠改擴建項目	Taizhou, Zhejiang Province, the PRC	台州市黃岩區住房和城鄉建設局	BOT on sewage treatment	120,000	21 years from 2018 to 2039
48.	伊犁北控水務有限公司	伊寧市城市地表水供水項目	Yining, Xinjiang Uyghur Autonomous Region, the PRC	伊寧市水務局	BOT on water supply	200,000	30 years from 2019 to 2049
49.	大慶市北控水務有限公司	大慶市光明污水處理廠	Daqing, Heilongjiang Province, the PRC	大慶市城市管理委員會	BOT on sewage treatment	165,000	30 years from 2019 to 2049

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m <sup>3</sup> /day)	Service concession period
<b>Joint ventures:</b>							
50.	貴陽北控水務有限責任公司 ("Guiyang BEWG")	貴陽市城市供水廠	Guiyang, Guizhou Province, the PRC	貴陽市城市管理局	BOT on water distribution	1,000,000	30 years from 2011 to 2041
51.	海寧實康水務有限公司	浙江海寧供水廠	Haining, Zhejiang Province, the PRC	浙江海寧市人民政府	TOT on water distribution	300,000	30 years from 2013 to 2043
52.	朝陽市北控水務有限公司	朝陽淨源污水處理廠	Chaoyang City, Liaoning Province, the PRC	朝陽市人民政府 國有資產監督 管理委員會	TOT on sewage treatment	100,000	30 years from 2016 to 2046
53.	邢臺北控水務有限公司	河北邢臺召馬地表水廠第一期	Xingtai, Hebei Province, the PRC	邢臺市水務局	BOT on water supply	150,000	30 years from 2017 to 2047

The above table lists the service concession arrangements of the Group which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of all other service concession arrangements would, in the opinion of the directors, result in particulars of excessive length.

Pursuant to the service concession agreements entered into by the Group, the Group is granted the rights to use the property, plant and equipment of the Facilities and the related land, which are generally registered under the names of the relevant companies in the Group, during the service concession periods, but the Group is generally required to surrender these assets to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods. As at 31 December 2020, the Group was in the process of applying for the change of registration of the title certificates with respect to certain land use rights and buildings of certain Facilities to which the Group's service concession arrangements relate. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of these buildings and land to which the above-mentioned land use rights relate, and that the Group would not have any legal barriers in obtaining the proper title certificates.

At 31 December 2020, certain sewage treatment and water distribution concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) with an aggregate carrying amount of HK\$16,235,944,000 (2019: HK\$14,547,127,000) were pledged to secure certain bank loans granted to the Group (note 36).

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

As further explained in the accounting policy for “Service concession arrangements” set out in note 3.4 to the financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate. The following is the summarised information of the intangible asset component (operating concessions) and the financial asset component (receivables under service concession arrangements) with respect to the Group’s service concession arrangements:

### Operating concessions

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At 1 January:		
Cost	6,241,427	4,981,435
Accumulated amortisation	(1,379,070)	(1,067,073)
Net carrying amount	4,862,357	3,914,362
Net carrying amount:		
At 1 January	4,862,357	3,914,362
Acquisition of subsidiaries <i>(note 46)</i>	–	438,010
Additions	753,961	915,182
Amortisation provided during the year <i>(note 7)</i>	(214,821)	(255,591)
Disposal of subsidiaries <i>(note 47)</i>	(209,796)	(206)
Exchange realignment	364,664	(149,400)
At 31 December	5,556,365	4,862,357
At 31 December:		
Cost	6,938,581	6,241,427
Accumulated amortisation	(1,382,216)	(1,379,070)
Net carrying amount	5,556,365	4,862,357

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

### Receivables under service concession arrangements

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Receivables under service concession arrangements	46,076,812	36,056,475
Impairment <i>(note (b))</i>	(247,111)	(207,774)
	<b>45,829,701</b>	35,848,701
Portion classified as current assets	(4,131,424)	(3,815,388)
	<b>41,698,277</b>	32,033,313

*Notes:*

- (a) In respect of the Group's receivables under service concession arrangements, the various group companies have different credit policies, depending on the requirements of the locations in which they operate. Ageing analyses of receivables under service concession arrangements are regularly reviewed by senior management in order to minimise any credit risk arising from the receivables.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Billed:		
Within 3 months	1,813,299	1,651,915
4 to 6 months	962,064	785,944
7 to 12 months	584,949	579,737
Over 1 year	771,112	797,792
	<b>4,131,424</b>	3,815,388
Unbilled:		
Non-current portion*	41,698,277	32,033,313
Total	<b>45,829,701</b>	35,848,701

\* The non-current portion receivables represented contract assets as the rights to considerations have yet to be unconditional.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

### Receivables under service concession arrangements *(Continued)*

Notes: *(Continued)*

- (b) The movements in the loss allowance for impairment of the Group's receivables under service concession arrangements during the year are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At 1 January	207,774	143,683
Impairment losses, net	74,099	64,733
Disposal of a subsidiary	(29,876)	–
Exchange realignment	(4,886)	(642)
At 31 December	247,111	207,774

The increase (2019: increase) in the loss allowance was due to the significant changes in the gross carrying amount of the receivables under service concession arrangements mainly attributable to the acquisition of TOT projects and commencement of operations of BOT projects.

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2020, the probability of default applied ranged from 0.05% to 3.93% (2019: 0.08% to 2.00%), and the loss given default was estimated to be ranged from 54.16% to 64.87% (2019: 55.83% to 69.64%).

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

### Receivables under service concession arrangements *(Continued)*

Notes: *(Continued)*

(b) *(Continued)*

Set out below is the information about the credit risk exposure of the Group's receivables under service concession arrangements using the probability of default approach:

As at 31 December 2020

	Stage 1 Collective <i>HK\$'000</i>	Stage 2 Collective <i>HK\$'000</i>	Stage 3 Collective <i>HK\$'000</i>	Purchased or originated credit-impaired ("POCI") <i>HK\$'000</i>	Total <i>HK\$'000</i>
ECL allowance as at 1 January 2020	13,459	194,315	–	–	207,774
New assets originated	7,581	7,710	–	–	15,291
Repaid (excluding write-offs)	(14,053)	(1,479)	–	–	(15,532)
Disposal of subsidiaries	–	(35,550)	–	–	(35,550)
Transfers to Stage 2	3	(3)	–	–	–
Loss allowance recognised	2,208	77,806	–	–	80,014
Exchange realignment	(317)	(4,569)	–	–	(4,886)
At 31 December 2020	8,881	238,230	–	–	247,111

As at 31 December 2019

	Stage 1 Collective <i>HK\$'000</i>	Stage 2 Collective <i>HK\$'000</i>	Stage 3 Collective <i>HK\$'000</i>	Purchased or originated credit-impaired ("POCI") <i>HK\$'000</i>	Total <i>HK\$'000</i>
ECL allowance as at 1 January 2019	47,938	90,695	5,050	–	143,683
New assets originated	6,635	–	–	–	6,635
Repaid (excluding write-offs)	(34,769)	–	–	–	(34,769)
Transfers to Stage 2	(34,151)	39,201	(5,050)	–	–
Transfers to Stage 1	27,883	(27,883)	–	–	–
Loss allowance recognised	–	92,867	–	–	92,867
Exchange realignment	(77)	(565)	–	–	(642)
At 31 December 2019	13,459	194,315	–	–	207,774



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 19. OTHER INTANGIBLE ASSETS

	Patents HK\$'000	Computer software HK\$'000	Total HK\$'000
<b>Year ended 31 December 2020</b>			
At 1 January 2020:			
Cost	6,642	307,575	314,217
Accumulated amortisation	(2,140)	(64,564)	(66,704)
Net carrying amount	4,502	243,011	247,513
Net carrying amount:			
At 1 January 2020	4,502	243,011	247,513
Acquisition of subsidiaries ( <i>note 46</i> )	–	312	312
Additions	3,372	117,325	120,697
Disposal	–	(3)	(3)
Disposal of subsidiaries ( <i>note 47</i> )	–	(9)	(9)
Amortisation provided during the year	(466)	(30,608)	(31,074)
Exchange realignment	441	21,051	21,492
At 31 December 2020	7,849	351,079	358,928
At 31 December 2020:			
Cost	10,610	450,071	460,681
Accumulated amortisation	(2,761)	(98,992)	(101,753)
Net carrying amount	7,849	351,079	358,928

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 19. OTHER INTANGIBLE ASSETS *(Continued)*

	Patents <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31 December 2019</b>			
At 1 January 2019:			
Cost	5,461	187,528	192,989
Accumulated amortisation	(1,474)	(45,735)	(47,209)
Net carrying amount	3,987	141,793	145,780
Net carrying amount:			
At 1 January 2019	3,987	141,793	145,780
Additions	1,286	124,293	125,579
Amortisation provided during the year	(693)	(19,691)	(20,384)
Exchange realignment	(78)	(3,384)	(3,462)
At 31 December 2019	4,502	243,011	247,513
At 31 December 2019:			
Cost	6,642	307,575	314,217
Accumulated amortisation	(2,140)	(64,564)	(66,704)
Net carrying amount	4,502	243,011	247,513

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 20. INVESTMENTS IN JOINT VENTURES

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	2019 <i>HK\$'000</i>
Investments in joint ventures, included in non-current assets:			
Share of net assets		<b>9,477,488</b>	7,502,807
Goodwill on acquisition	<i>(c)</i>	<b>491,464</b>	473,435
		<b>9,968,952</b>	7,976,242
Due from joint ventures, included in current assets	<i>(d), 28</i>	<b>657,200</b>	192,069
Due to joint ventures, included in current liabilities	<i>(d), 43</i>	<b>(2,124,076)</b>	(1,610,261)
Total interests in joint ventures		<b>8,502,076</b>	6,558,050

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

Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Percentage of			Principal activities
			Ownership interest attributable to the Group	Voting power	Profit sharing	
Guiyang BEWG <sup>#</sup>	PRC/Mainland China	RMB1,456,162,145/ RMB1,456,162,145	45	45	45	Water distribution
洛陽北控水務集團有限公司 ("Luoyang BEWG") <sup>*</sup>	PRC/Mainland China	RMB200,000,000/ RMB200,000,000	40	40	40	Water distribution, reclaimed water treatment and heating services
天津市華博水務有限公司 ("Tianjin Huabo") <sup>*</sup>	PRC/Mainland China	RMB588,235,294/ RMB588,235,294	49	49	49	Sewage treatment and construction services
北控南南君悅(天津)投資合夥企業 (有限合夥) <sup>*</sup>	PRC/Mainland China	RMB628,000,000/ RMB628,000,000	6.5	(a)	(a)	Fund investment
北京北控國壽投資基金管理中心 (有限合夥) <sup>*</sup>	PRC/Mainland China	RMB2,712,970,000/ RMB24,002,400,000	-	(b)	(b)	Fund investment

<sup>#</sup> *Directly held by the Company*

<sup>\*</sup> *In the opinion of the directors, the joint ventures were not individually material to the Group in the current and prior years. Hence, no disclosure of their financial information has been made.*

# NOTES TO FINANCIAL STATEMENTS

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## 20. INVESTMENTS IN JOINT VENTURES *(Continued)*

*Notes:*

- (a) In 2017, the Group (as deferred limited partner) entered into a limited partnership agreement (the “Junyue Partnership Agreement”) with an investment management company (as preferential limited partner), and a joint venture investor (also as deferred limited partner) in relation to the establishment and management of a fund (the “Junyue Fund”). The Junyue Fund shall focus on investing in water and water environmental comprehensive projects in certain cities in Mainland China.

Pursuant to the Junyue Partnership Agreement, the capital commitment of the Junyue Fund is approximately RMB3.1 billion. As at 31 December 2020, the total investment contributed by the preferential limited partner and the Group as a deferred limited partner in the Junyue Fund amounted to RMB500 million (2019: RMB500 million) and RMB83 million (2019: RMB36 million), respectively. Subsequent to the end of the reporting period, according to the resolution approved by all the partners, the registered capital of Junyue Fund has revised from RMB3.1 billion to RMB628 million.

The preferential limited partner shall have priority to be entitled to the expected principal and return among all the partners in distribution and dissolution. In the event of loss, the loss shall be shared by all the partners in accordance with the percentage of capital contribution.

The Group had engaged Valtech Valuation Advisory Limited in 2019, an independent professionally qualified valuer, to measure the fair value of the undertakings provided by the Group as one of the deferred limited partners. In the opinion of the directors, the fair value of the undertakings was not material so no separate disclosure was made.

In January 2021, China Life (as defined below) has acquired all the equity interests from the preferential limited partner. According to the equity transfer agreement, the new preferential limited partner will not entitle to any undertakings provided by the deferred limited partners.

As all the significant relevant activities of the Junyue Fund require the unanimous consent from all limited partners, the Junyue Fund is accounted for as a joint venture.

- (b) In 2017, the Group (as intermediate limited partner) entered into a master limited partnership agreement (“China Life Partnership Agreement”) with China Life Insurance Company Limited (“China Life”) (as preferential limited partner) and a joint venture investor (as deferred limited partner) in relation to the establishment and management of a master fund. The master fund shall focus on investing in water and water environmental comprehensive projects which had been invested by different subordinated funds in Mainland China.

Pursuant to the China Life Partnership Agreement, the aggregate capital commitment of the master fund was approximately RMB24 billion. As at 31 December 2020, the total investment contributed by China Life in the master fund amounted to approximately RMB2,711 million (2019: RMB2,470 million). The intermediate and deferred limited partners are not required to contribute the capital unless and until the general partner may issue a written notice to them to seek the relevant capital contribution pursuant to the China Life Partnership Agreement. No capital was contributed by the intermediate and deferred limited partners and all the capital in the master fund has been invested to four subordinated funds as at 31 December 2020 and 2019.

China Life shall have priority to be entitled to the expected principal and return among all the partners in distribution and dissolution. In the event of loss, China Life shall share the loss lastly.

As all the significant relevant activities of the master fund require the unanimous consent from all limited partners, the master fund is accounted for as a joint venture.

# NOTES TO FINANCIAL STATEMENTS

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## 20. INVESTMENTS IN JOINT VENTURES *(Continued)*

*Notes: (Continued)*

(c) The movements in the goodwill included in the investments in joint ventures during the year are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	473,435	478,275
Exchange realignment	18,029	(4,840)
At 31 December	491,464	473,435

(d) (i) Included in the amounts due from joint ventures of the Group as at 31 December 2020 was an advance to a joint venture of US\$26,390,000 (equivalent to HK\$204,523,000) (2019: US\$26,390,000 (equivalent to HK\$206,341,000)). The amount is unsecured, bearing floating interest at LIBOR plus 2.8% per annum, and repayable on demand. Interest income of HK\$7,784,000 (2019: HK\$10,805,000) was recognised in profit or loss during the year ended 31 December 2020.

(ii) Other than the above balances and those mentioned in note 6, the amounts due from/to joint ventures included in current assets and current liabilities of the Group as at 31 December 2020 and 2019 are unsecured, interest-free and are repayable on demand. There were no recent history of default and past due amounts for the amounts due from joint ventures. As at 31 December 2020 and 2019, the loss allowance was assessed to be minimal.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Share of the joint ventures' profits and losses for the year	729,681	551,395
Share of the joint ventures' total comprehensive income for the year	731,731	547,609
Aggregate carrying amount of the Group's investments in the joint ventures	9,968,952	7,976,242

# NOTES TO FINANCIAL STATEMENTS

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## 21. INVESTMENTS IN ASSOCIATES

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	2019 <i>HK\$'000</i>
Investments in associates, included in non-current assets:			
Share of net assets		<b>5,690,774</b>	4,599,239
Goodwill on acquisition	<i>(d)</i>	<b>670,699</b>	663,063
	<i>(e)</i>	<b>6,361,473</b>	5,262,302
Due from associates, included in current assets	<i>(b), 28</i>	<b>78,907</b>	46,523
Due to associates, excluding trade payables, included in current liabilities	<i>(b), 43</i>	<b>(60,738)</b>	(62,000)
<b>Total investments in associates</b>		<b>6,379,642</b>	5,246,825

*Notes:*

(a) Particulars of the Group's interests in the major associates are as follows:

Company name	Place of incorporation	Issued capital/ paid-up capital	Percentage of			Principal activities
			Ownership interest attributable to the Group	Voting power	Profit sharing	
Beijing Enterprises Clean Energy Group Limited*	Cayman Islands	HK\$63,525,397	31.88	31.88	31.88	Management of photovoltaic power business, wind power business, and clean heat supply business
Beijing Enterprises Urban Resources Group Limited*	Cayman Islands	HK\$3,600,000,000	28.04	28.04	28.04	Provision of environmental hygiene services, hazardous waste treatment services and others
長沙威保特環保科技股份有限公司*	PRC/Mainland China	RMB242,680,000/ RMB242,680,000	35.6	35.6	35.6	Provision of environmental hygiene services, sewage treatment services and others
金科環境股份有限公司*	PRC/Mainland China	RMB102,760,000/ RMB102,760,000	17.15	17.15	17.15	Provision of environmental protection services, sewage treatment services and others

\* *In the opinion of the directors, these associates were not individually material to the Group in the current and prior years. Hence, no disclosure of its financial information has been made.*

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 21. INVESTMENTS IN ASSOCIATES *(Continued)*

*Notes: (Continued)*

- (b) The balances with associates are unsecured, interest-free and are repayable on demand. There were no recent history of default and past due amounts for the amounts due from associates. As at 31 December 2020 and 2019, the loss allowance was assessed to be minimal.
- (c) The Group's trade payable balance with an associate is included in trade payables and disclosed in note 42 to the financial statements.
- (d) The movements in the goodwill included in the investments in associates during the year are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	663,063	665,112
Exchange realignment	7,636	(2,049)
At 31 December	670,699	663,063

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Share of the associates' profits and losses for the year	330,781	384,986
Share of the associates' total comprehensive income	863,959	417,234
Aggregate carrying amount of the Group's investments in associates	6,361,473	5,262,302

## 22. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Asset-backed note, at fair value	68,036	80,258

*Notes:*

- (a) The above asset-backed note was backed by guarantee receipts of certain sewage water plants in the PRC and will mature on 25 April 2024. It was mandatorily classified as a financial asset at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.
- (b) The fair values of the asset-backed note have been estimated on 31 December 2020 and 2019 by Valtech Valuation Advisory Limited, using a Monte Carlo simulation valuation technique based on the estimates on default rate and recovery rate of the industry adjusted to reflect the specific circumstances of the investments. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period. During the years ended 31 December 2020 and 2019, the related changes in fair value were not significant to the Group.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 22. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

*Notes: (Continued)*

(b) *(Continued)*

The fair value of the Group's the asset-backed note was measured using significant unobservable inputs (Level 3 of fair value hierarchy). During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 (2019: Nil).

Set out below is a summary of the valuation technique used and the key inputs to the valuation of financial asset at fair value through profit or loss together with a quantitative sensitivity analysis as at 31 December 2020 and 2019:

Valuation technique	Significant unobservable input		Sensitivity of fair value to the input
Monte Carlo simulation	Default rate	2020: 0.29% (2019: 0.43%)	5% increase/decrease in multiple would result in decrease in fair value by HK\$26,000 (2019: HK\$6,000)/ increase in fair value by HK\$27,000 (2019: HK\$6,000)
	Recovery rate	2020: 35.13% (2019: 37.20%)	5% increase/decrease in multiple would result in increase in fair value by HK\$14,000 (2019: HK\$20,000)/ decrease in fair value by HK\$13,000 (2019: HK\$10,000)

The movements in fair value measurements within Level 3 are as follows:

	Financial asset at fair value through profit or loss HK\$'000
At 1 January 2019	97,854
Redemption for the year	(16,239)
Exchange realignment	(1,357)
At 31 December 2019 and 1 January 2020	80,258
Redemption for the year	(16,045)
Exchange realignment	3,823
At 31 December 2020	68,036



# NOTES TO FINANCIAL STATEMENTS

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## 23. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Equity investments designated at fair value through other comprehensive income</b>		
Listed equity investments, at fair value	880,910	921,048
Unlisted equity investments, at fair value	529,989	483,331
	<b>1,410,899</b>	<b>1,404,379</b>

- (a) The above equity investments were irrevocably designated as equity instruments at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.
- (b) The fair values of equity investments designated at fair value through other comprehensive income has been estimated using the market approach by reference to the quoted market price was classified as level 2 to the fair value hierarchy.

The fair values of the remaining equity investments designated at fair value through other comprehensive income have been estimated on 31 December 2020 and 2019 by Beijing North Asia Asset Assessment Firm, using the market approach were classified as level 3 to the fair value hierarchy. The directors determine comparable public companies (peers) based on industry, size and leverage, and calculate an appropriate price multiple, such as enterprise value to earnings before interest and taxes (“EV/EBIT”) and the price to book value (“P/B”) multiple (2019: price to earnings (“P/E”) multiple and P/B multiple), for each comparable company identified. The multiple is then discounted for considerations such as illiquidity based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding net assets of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 23. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

(b) *(Continued)*

Below is a summary of the valuation technique used and the key inputs to the valuation of equity investments designated at fair value through other comprehensive income together with a quantitative sensitivity analysis as at 31 December 2020 and 2019:

Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Valuation multiples	Average P/B multiple of peers	2020: 0.9x to 4.2x (2019: 1.6x to 4.3x)	5% increase/decrease in multiple would result in increase/decrease in fair value by HK\$7,447,000 (2019: HK\$6,351,000)
	Average EV/EBIT multiple of peers	2020: 10.7x to 43.8x	5% increase/decrease in multiple would result in increase/decrease in fair value by HK\$6,857,000
	Average P/E multiple of peers	2019: 13.4x to 59.2x	5% increase/decrease in multiple would result in increase/decrease in fair value by HK\$8,648,000
	Discount for lack of marketability	2020: 19.3% to 38.9% (2019: 23.0% to 25.0%)	5% increase/decrease in discount would result in decrease/increase in fair value by HK\$4,597,000 (2019: HK\$4,488,000)

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 23. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

### (c) Fair value hierarchy

The movements in fair value measurements within Level 3 are as follows:

	<i>Note</i>	<b>Equity investments designated at fair value through other comprehensive income HK\$'000</b>
At 1 January 2019		392,069
Redefined interest in a former subsidiary	47	1,238
Additions		30,082
Disposals		(455)
Exchange realignment		(1,882)
At 31 December 2019 and 1 January 2020		421,052
Additions		42,037
Disposals		(4,963)
Exchange realignment		9,584
At 31 December 2020		467,710

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2019: Nil).

# NOTES TO FINANCIAL STATEMENTS

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## 24. NON-CURRENT ASSETS HELD FOR SALE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Receivables under service concession arrangements	–	328,517

Certain sewage water plants in Mainland China under service concession arrangements were classified as non-current assets held for sale in 2019 as the carrying amounts of the assets would be recovered by the Group principally through the sale of the related plants. In 2020, the Group has signed new service concession arrangement agreements with a related governmental authority and the Group will no longer sell the related plants. As a result, the respective sewage water plants are reclassified to “Receivables under service concession arrangements” as at 31 December 2020.

## 25. INVENTORIES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Raw materials	230,871	234,419
Low value consumables	–	7,518
Finished goods	–	1,137
	<b>230,871</b>	<b>243,074</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 26. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Contract costs arising from construction services provided plus recognised profits less recognised losses to date	45,548,411	49,787,099
Impairment ( <i>note</i> )	(142,542)	(151,797)
	<b>45,405,869</b>	49,635,302
Portion classified as current assets	<b>(3,091,651)</b>	(2,988,428)
	<b>42,314,218</b>	46,646,874

Amounts due from contract customers are initially recognised for revenue earned from the construction services as the receipt of consideration is conditional on successful completion of construction. Upon completion of construction and acceptance by the customer, the amounts recognised as amounts due from contract customers are reclassified to contract assets included in receivables under service concession arrangements and operating concession for BOT arrangements and trade receivables for other construction contracts when the rights to considerations are unconditional. The decrease in amounts due from contract customers in 2020 was the result of completion of certain comprehensive renovation projects during the year, the related amounts due from contract customers were transferred to trade receivables upon completion. During the year ended 31 December 2020, HK\$9.3 million (2019: an allowance of HK\$16.5 million) was recognised in profit or loss as a reversal of impairment (2019: an allowance) for expected credit losses on amounts due from contract customers. The Group's trading terms and credit policy with customers are disclosed in notes 18 and 27 to the financial statements, respectively.

As at 31 December 2020, amounts due from contract customers of HK\$112,203,000 (2019: HK\$367,801,000) were designated as a charge for the repayment of corporate bonds, details of which are disclosed in note 37 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 26. AMOUNTS DUE FROM CONTRACT CUSTOMERS *(Continued)*

*Note:* The movements in the loss allowance for impairment of amounts due from contract customers are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At 1 January	151,797	135,307
Impairment losses/(reversal of impairment losses), net	(9,255)	16,490
At 31 December	142,542	151,797

The decrease in the loss allowance in 2020 was due to changes in the gross carrying amount of the amounts due from contract customers as a result of the completion of certain comprehensive renovation projects during the year.

The increase in the loss allowance in 2019 was due to the changes in the gross carrying amount of the amounts due from contract customers mainly attributable to:

- The acquisition of new subsidiaries and new ongoing BOT projects.
- The significant increase in credit risk of certain amounts due from contract customers during the year.

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2020, the probability of default applied ranged from 0.05% to 0.79% (2019: 0.08% to 1.86%) and the loss given default was estimated to range from 54.16% to 64.87% (2019: 55.83% to 57.43%).

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 26. AMOUNTS DUE FROM CONTRACT CUSTOMERS *(Continued)*

Set out below is the information about the credit risk exposure of the Group's amounts due from contract customers using the probability of default approach:

	Stage 1 Collective <i>HK\$'000</i>	Stage 2 Collective <i>HK\$'000</i>	Stage 3 Collective <i>HK\$'000</i>	POCI <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>As at 31 December 2020</b>					
ECL allowance as at 1 January 2020	20,563	131,234	–	–	151,797
New assets originated	1,942	–	–	–	1,942
Repaid (excluding write-offs)	(5,575)	–	–	–	(5,575)
Loss allowance recognised	(3,603)	(2,019)	–	–	(5,622)
<b>At 31 December 2020</b>	<b>13,327</b>	<b>129,215</b>	<b>–</b>	<b>–</b>	<b>142,542</b>
<b>As at 31 December 2019</b>					
ECL allowance as at 1 January 2019	54,622	80,685	–	–	135,307
New assets originated	8,748	–	–	–	8,748
Transfers to Stage 2	(42,807)	42,807	–	–	–
Loss allowance recognised	–	7,742	–	–	7,742
<b>At 31 December 2019</b>	<b>20,563</b>	<b>131,234</b>	<b>–</b>	<b>–</b>	<b>151,797</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 27. TRADE RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	21,463,964	11,050,283
Impairment ( <i>note (c)</i> )	(231,779)	(87,348)
	<b>21,232,185</b>	10,962,935
Portion classified as current assets	<b>(8,955,073)</b>	(6,324,510)
	<b>12,277,112</b>	4,638,425

*Notes:*

- (a) The Group's trade receivables arise from the provision of construction services for comprehensive renovation projects, water distribution services on the Build-Own-Operate basis, technical and consultancy services and sale of machineries. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which will settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade receivables of certain construction services for comprehensive renovation projects which bear interest at rates ranging from 4.8% to 15.0% (2019: 4.8% to 15.0%) per annum, all other trade receivables are non-interest-bearing.

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

	2020 HK\$'000	2019 HK\$'000
Billed:		
Within 3 months	4,782,471	2,518,632
4 to 6 months	787,440	657,255
7 to 12 months	526,606	442,774
Over 1 year	2,858,556	2,705,849
Balance with extended credit period	55,757	39,846
	<b>9,010,830</b>	6,364,356
Unbilled*	<b>12,221,355</b>	4,598,579
	<b>21,232,185</b>	10,962,935

- \* The unbilled balance was attributable to certain construction services rendered under contracts for comprehensive renovation projects which will be billed in accordance with the repayment terms stipulated in relevant construction service agreements entered into between the Group and the contract customers.



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 27. TRADE RECEIVABLES *(Continued)*

*Notes: (Continued)*

- (b) Included in the trade receivables of the Group as at 31 December 2020 was an aggregate amount of HK\$2,848,000 (2019: HK\$2,688,000) due from 北京北控環保工程技術有限公司, a wholly-owned subsidiary of BEHL, which is a substantial beneficial shareholder of the Company, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and repayable on credit terms similar to those offered to the major customers of the Group.
- (c) The movements in the Group's the loss allowance for impairment of trade receivables during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
At 1 January	87,348	69,061
Impairment losses, net	131,410	19,124
Exchange realignment	13,021	(837)
At 31 December	231,779	87,348

The increase (2019: increase) in the loss allowance was due to significant changes in the gross carrying amount of the trade receivables mainly contributed to the completion of certain comprehensive renovation projects and significant increase in credit risk of certain aged overdue trade receivables.

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2020, the probability of default applied ranged from 0.06% to 100% (2019: 0.08% to 0.14%) and the loss given default was estimated to be ranged from 54.16% to 64.87% (2019: 57.43% to 69.64%).

Set out below is the information about the credit risk exposure of the Group's trade receivables using the probability of default approach:

	Stage 1 Collective HK\$'000	Stage 2 Collective HK\$'000	Stage 3 Collective HK\$'000	POCI HK\$'000	Total HK\$'000
<b>As at 31 December 2020</b>					
ECL allowance as at 1 January 2020	87,348	–	–	–	87,348
New assets originated	5,158	54	–	–	5,212
Repaid (excluding write-offs)	(3,127)	–	–	–	(3,127)
Transfer to Stage 2	(5,597)	5,597	–	–	–
Transfer to Stage 3	(86,455)	–	86,455	–	–
Loss allowance recognised	21,804	1,248	106,273	–	129,325
Exchange realignment	5,199	–	7,822	–	13,021
<b>At 31 December 2020</b>	<b>24,330</b>	<b>6,899</b>	<b>200,550</b>	<b>–</b>	<b>231,779</b>

# NOTES TO FINANCIAL STATEMENTS

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## 27. TRADE RECEIVABLES *(Continued)*

*Notes: (Continued)*

(c) *(Continued)*

Set out below is the information about the credit risk exposure of the Group's trade receivables using the probability of default approach:  
*(Continued)*

	Stage 1 Collective HK\$'000	Stage 2 Collective HK\$'000	Stage 3 Collective HK\$'000	POCI HK\$'000	Total HK\$'000
As at 31 December 2019					
ECL allowance as at 1 January 2019	69,061	–	–	–	69,061
New assets originated	19,124	–	–	–	19,124
Exchange realignment	(837)	–	–	–	(837)
At 31 December 2019	87,348	–	–	–	87,348

(d) The Group did not hold any material collateral or other credit enhancements over trade receivable balances.

(e) As at 31 December 2020, trade receivables of HK\$959,484,000 (2019: HK\$542,008,000) were designated as a charge for the repayment of the MYR Bonds, details of which are disclosed in note 37 to the financial statements.

## 28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2020 HK\$'000	2019 HK\$'000
Prepayments		453,900	472,022
Deposits and other debtors	(a)	5,924,010	5,229,533
Advances to subcontractors and suppliers	(b)	4,981,623	5,553,654
Due from joint ventures	20(d)	657,200	192,069
Due from associates	21(b)	78,907	46,523
Due from non-controlling equity holders		247,378	248,829
Due from other related parties	29	318,548	328,702
		12,661,566	12,071,332
Impairment	(d)	(762,948)	(242,253)
		11,898,618	11,829,079
Portion classified as current assets		(9,749,686)	(9,178,814)
Non-current portion		2,148,932	2,650,265

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

*Notes:*

- (a) The Group's deposits and other debtors as at 31 December 2020 and 2019 included, inter alia, the following:
- (i) loans and related interest receivables of HK\$589,808,000 (2019: HK\$626,022,000) in aggregate provided to various government authorities in Mainland China as part of the construction funding for certain comprehensive renovation projects undertaken by these government authorities. Certain of these loans are interest-bearing at 4.75% to 10% (2019: 4.75% to 10%) per annum.  
  
The above loans and the corresponding interest receivables of HK\$11,905,000 (2019: HK\$11,236,000) in aggregate are repayable within one year after the reporting period and are classified as current assets, and HK\$577,903,000 (2019: HK\$614,786,000) in aggregate are classified as non-current assets. The above balances are secured by:
    - (1) proceeds from the disposal of certain land use rights owned by the relevant government authorities in Mainland China; and
    - (2) proceeds from the disposal of the 31.5% equity interest in Beikong Shudu held by two government authorities in Mainland China.
  - (ii) a loan amount of HK\$229,037,000 (2019: HK\$449,438,000) provided to a former joint venture partner, for capital injection of the joint venture which was disposed of by the Group in prior years. The balance is secured, bears interest at 12% per annum and is repayable on demand and is classified as a non-current asset.
  - (iii) investment deposits of HK\$117,520,000 (2019: HK\$110,917,000) in aggregate paid to independent third parties in connection with the Group's acquisition of the controlling equity interests in certain water distribution and consultancy operations in the PRC. The balances are classified as non-current assets.
  - (iv) investment/bidding deposits of HK\$156,217,000 (2019: HK\$174,812,000) in aggregate paid to certain government authorities in the PRC for acquiring certain sewage and reclaimed water treatment operations, of which HK\$155,622,000 (2019: HK\$174,250,000) and HK\$595,000 (2019: HK\$562,000) are classified as current and non-current assets, respectively.
  - (v) consideration receivables amounting to HK\$180,556,000 (2019: HK\$371,755,000) in aggregate from the disposal of parcels of land in the PRC which are classified as a non-current assets.
- (b) Included in the Group's advances to subcontractors and suppliers were advance payments in an aggregate amount of HK\$375,560,000 (2019: HK\$354,461,000) made by certain subsidiaries of the Group to subcontractors for construction services to be performed on a certain comprehensive renovation project entered into between the Group and government authorities in the PRC. The construction of this project was delayed and the subcontractor had returned an aggregate amount of HK\$375,560,000 (2019: HK\$354,461,000) of these advance payments to the other subsidiaries of the Group. As the criteria for offsetting financial instruments are not met, the refunded amounts are included in "Other payables and accruals" on the face of the consolidated statement of financial position (note 43).
- (c) A loan and related interest receivables of HK\$64,451,000 (2019: HK\$51,236,000) were provided to a non-controlling equity holder of a subsidiary. The balance is unsecured, bears interest of the benchmark interest rate for 3 to 5-year RMB loans published by the People's Bank of China rose up by 25% per annum and is repayable on demand and is classified as a current asset.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(d) The movements in the loss allowance for impairment of other receivables are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At 1 January	242,253	174,474
Impairment losses, net	479,336	70,566
Exchange realignment	41,359	(2,787)
At 31 December	762,948	242,253

The increase (2019: increase) in the loss allowance was due to significant increase in credit risk of certain aged overdue receivables.

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probability of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2020, the probability of default applied ranged from 0.06% to 100% (2019: 0.08% to 100%) and the loss given default was estimated to range from 54.16% to 64.87% (2019: 55.83% to 100%). The loss allowance for impairment of deposits and other receivables during the year ended 31 December 2019 was not significant to the Group.

Set out below is the information about the credit risk exposure of the Group's deposits and other receivables using the probability of default approach during the year ended 31 December 2020:

	Stage 1 Collective <i>HK\$'000</i>	Stage 2 Collective <i>HK\$'000</i>	Stage 3 Collective <i>HK\$'000</i>	POCI <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>As at 31 December 2020</b>					
ECL allowance as at 1 January 2020	174,837	–	67,416	–	242,253
New assets originated	115	–	–	–	115
Repaid (excluding write-offs)	(318)	–	–	–	(318)
Transfer to Stage 2	(13)	13	–	–	–
Transfer to Stage 3	(1,763)	–	1,763	–	–
Loss allowance recognised	6,921	38,450	434,168	–	479,539
Exchange realignment	14,076	2,050	25,233	–	41,359
At 31 December 2020	193,855	40,513	528,580	–	762,948

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## 29. BALANCES WITH RELATED PARTIES

The balances with related parties are unsecured, interest-free and are repayable on demand, except for the following:

The balances with related companies of the Group included in receivables under service concession arrangements, trade receivables, other receivables, trade payables and other payables are disclosed in notes 18, 27, 28, 42 and 43 to the financial statements, respectively.

## 30. RESTRICTED CASH AND PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cash and bank balances:		
Placed in banks	12,318,404	9,455,328
Placed in a financial institution ( <i>note 52</i> )	2,599,712	2,756,679
Time deposits:		
Placed in banks	370,620	160,735
Total cash and bank balances	15,288,736	12,372,742
Less: Restricted cash and pledged deposits ( <i>note (a)</i> )	(591,542)	(212,827)
Cash and cash equivalents	14,697,194	12,159,915

*Notes:*

- (a) The Group's restricted cash and pledged deposits as at 31 December 2020 included the following:
- (i) bank deposits of HK\$564,428,000 (2019: HK\$207,259,000) which could only be used for the construction of sewage treatment facilities and other infrastructural facilities undertaken by the Group; and
  - (ii) bank deposits of HK\$27,114,000 (2019: HK\$5,568,000) pledged to banks for the issuance of guarantees and to secure certain banking facilities granted to the Group (*note 36*).

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 30. RESTRICTED CASH AND PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

(Continued)

Notes: (Continued)

(b) The carrying amounts of the Group's cash and bank balances are denominated in the following currencies

	2020 HK\$'000	2019 HK\$'000
MOP	983	998
HK\$	372,175	308,059
RMB	14,192,495	10,847,836
US\$	240,479	192,336
MYR	27,811	134,451
EUR	165,698	469,788
SGD	42,043	50,969
AUD	247,052	368,305
	<b>15,288,736</b>	<b>12,372,742</b>

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(c) The Group's bank balances are deposited with creditworthy banks with no recent history of defaults.

## 31. SHARE CAPITAL

### Shares

	2020 HK\$'000	2019 HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.10 each	1,500,000	1,500,000
Issued and fully paid:		
10,021,595,871 (2019: 10,021,195,871) ordinary shares of HK\$0.10 each	1,002,160	1,002,120

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 31. SHARE CAPITAL *(Continued)*

### Shares *(Continued)*

A summary of the movements in the Company's issued share capital during the years ended 31 December 2020 and 2019 is as follows:

	<i>Notes</i>	Number of ordinary shares in issue	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019		9,412,988,721	941,299	–	941,299
Exercise of share options	<i>(a)</i>	9,810,000	981	29,899	30,880
Issue of shares	<i>(b)</i>	598,397,150	59,840	2,507,284	2,567,124
At 31 December 2019 and 1 January 2020		10,021,195,871	1,002,120	2,537,183	3,539,303
Exercise of share options	<i>(a)</i>	400,000	40	1,189	1,229
At 31 December 2020		10,021,595,871	1,002,160	2,538,372	3,540,532

#### Notes:

(a) During the year, the subscription rights attaching to 400,000 (2019: 9,810,000) share options were exercised at a subscription price of HK\$2.244 (2019: HK\$2.244) per ordinary share during the year, resulting in the issue 400,000 (2019: 9,810,000) ordinary shares of the Company for a total cash consideration of approximately HK\$898,000 (2019: HK\$22,014,000) (before expenses). At the time when the share options were exercised, the aggregate fair value of these share options of HK\$332,000 (2019: HK\$8,869,000) previously recognised in the share option reserve was transferred to the share premium account. Further details of the share options are set out in note 32 to the financial statements.

(b) On 18 January 2019, the Company entered into a subscription agreement with China Yangtze Power International (Hongkong) Co., Limited (the "CYPI Subscriber"), pursuant to which the Company agreed to allot and issue, and the CYPI Subscriber agreed to subscribe for 470,649,436 new ordinary shares of the Company at a price of HK\$4.29 per share. The subscription was completed on 18 March 2019 and the Group raised a total of approximately HK\$2,019.1 million, before expenses.

On 18 January 2019, the Company entered into a subscription agreement with Beijing Enterprises Environmental Construction Limited (the "BEECL Subscriber"), a controlling shareholder of the Company, pursuant to which the Company agreed to allot and issue, and the BEECL Subscriber agreed to subscribe for 127,747,714 new ordinary shares of the Company at a price of HK\$4.29 per share. The subscription was completed on 18 March 2019 and the Group raised a total of approximately HK\$548.0 million, before expenses.

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 32 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 32. 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 the directors and independent non-executive directors of the Company, and other employees of the Group. The Scheme became effective on 28 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at the date of passing the resolution for adoption of the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the ordinary shares of the Company in issue at any time or with an aggregate value (based on the price ordinary shares of the Company at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to five years and ends on a date which is not later than 10 years from the date of grant of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the closing price of ordinary shares of the Company on Stock Exchange on the date of grant of the share options; (ii) the average closing price of ordinary shares of the Company on Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of ordinary shares of the Company of HK\$0.10. The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in share capital of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings. The share options are non-transferrable and will lapse upon expiry or the grantee ceases to be an employee of the Group pursuant to the terms of the Scheme.



# NOTES TO FINANCIAL STATEMENTS

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## 32. SHARE OPTION SCHEME *(Continued)*

The movements in share options outstanding under the Scheme during the year are as follows:

	2020		2019	
	Weighted average exercise price <i>HK\$</i> <i>per share</i>	Number of options <i>'000</i>	Weighted average exercise price <i>HK\$</i> <i>per share</i>	Number of options <i>'000</i>
At 1 January	2.267	257,126	2.266	266,936
Exercised during the year	2.244	(400)	2.244	(9,810)
At 31 December	2.267	256,726	2.267	257,126

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2020 Number of options <i>'000</i>	2019 Number of options <i>'000</i>	Exercise price* <i>HK\$ per share</i>	Exercise periods
21,196	21,196	2.244	24-4-2014 to 23-4-2023
36,084	36,184	2.244	24-4-2015 to 23-4-2023
51,206	51,306	2.244	24-4-2016 to 23-4-2023
72,000	72,100	2.244	24-4-2017 to 23-4-2023
74,240	74,340	2.244	24-4-2018 to 23-4-2023
2,000	2,000	5.180	1-6-2016 to 27-3-2024
<b>256,726</b>	<b>257,126</b>		

\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

Notes:

(a) No share option expense was recognised during the year ended 31 December 2020 (2019: Nil) as the expense was fully amortised in prior years.

# NOTES TO FINANCIAL STATEMENTS

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## 32. SHARE OPTION SCHEME *(Continued)*

*Notes: (Continued)*

- (b) The 400,000 (2019: 9,810,000) share options exercised during the year resulted in the issue of 400,000 (2019: 9,810,000) ordinary shares of the Company and new share capital of HK\$40,000 (2019: HK\$981,000), as further detailed in note 31 to the financial statements.
- (c) At the end of the reporting period, the Company had 256,726,000 share options outstanding under the Scheme which represented approximately 2.6% of the Company's shares in issue as at 31 December 2020. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 256,726,000 additional ordinary shares of the Company and additional share capital of HK\$25,673,000 and share premium of HK\$791,711,000 (before issue expenses, and taking into account the share option reserve as at 31 December 2020).

Subsequent to the end of the reporting period, no share options were exercised.

At the date of approval of these financial statements, the Company had 256,726,000 share options outstanding under the share option scheme, which represented approximately 2.6% of the Company's share in issue as at that date.

## 33. SHARE AWARD SCHEME

The Company operates a share award scheme (the "Share Award Scheme") for the purpose of recognising the contributions by certain employees, directors and consultants of the Group and encourage them for the continual operation and development of the Group, and attract excellent talent for further development of the Group. The Share Award Scheme became effective on 17 December 2018 and shall be valid and effective for a term of 5 years commencing on the adoption date and ending on the expiry of the trust period which may be extended by the Board at its absolute discretion.

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

The Company shall not make any further award of awarded shares which will result in the aggregate number of shares held by the trustee under the Share Award Scheme at any single point in time exceeding 2% of the total issued share capital of the Company from time to time. Further details of the Share Award Scheme are set out in the announcement of the Company dated 17 December 2018.

# NOTES TO FINANCIAL STATEMENTS

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## 33. SHARE AWARD SCHEME *(Continued)*

Movements of the Company's shares held under the Share Award Scheme are as follows:

	Number of ordinary shares held under share award scheme account	Amount HK\$'000
At 1 January 2019	–	–
Purchased during the year <i>(note (a))</i>	24,938,000	110,014
At 31 December 2019 and 1 January 2020	24,938,000	110,014
Exercised during the year	(15,003,053)	(56,329)
Purchased during the year <i>(note (a))</i>	22,364,000	67,583
At 31 December 2020	32,298,947	121,268

*Notes:*

- (a) During the year ended 31 December 2020, 22,364,000 (2019: 24,938,000) ordinary shares of the Company were purchased by the trustee from the open market at an aggregate consideration of approximately HK\$67,583,000 (2019: HK\$110,014,000). The amount has been deducted from shareholders' equity and recorded in "Shares held under the share award scheme" of the Group. As at 31 December 2020, there were 32,298,947 (2019: 24,938,000) ordinary shares held through the trustee of the Share Award Scheme.

No share award was granted during the year ended 31 December 2020 (2019: granted 15,374,599 awarded shares).

- (b) On 26 September 2019, the Company granted an aggregate of 5,041,234 awarded shares to five directors, namely Mr. Zhou Min, Mr. Li Haifeng, Mr. Zhang Tiefu, Mr. Tung Woon Cheung Eric and Mr. Li Li and 10,333,365 awarded shares (collectively referred to as the "Awarded Shares") to other employees of the Group (collectively referred to as the "Selected Participants"). Further details of the grant are set out in the announcement of the Company dated 26 September 2019.

Subject to the acceptance of the Selected Participants and that the Selected Participants remain as eligible person and the Awarded Shares will be transferred to the Selected Participants at nil consideration while exercised.

# NOTES TO FINANCIAL STATEMENTS

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## 33. SHARE AWARD SCHEME *(Continued)*

*Notes: (Continued)*

(b) *(Continued)*

The fair value of equity-settled share awards granted during the year ended 31 December 2019 amounted to HK\$54,488,000 in total, which was estimated as at the date of grant using the binomial model, taking into account the terms and conditions upon which the awards were granted. The following table lists the inputs to the model used:

	2019
Dividend yield (%)	4.71
Historical volatility (%)	14.12 – 30.82
Risk-free interest rate (%)	1.66
Effective life of awards (year)	1.53
Share price as at the valuation date (HK\$ per share)	4.06

The Group recognised a share award expense of HK\$27,244,000 for each of the year ended 31 December 2020 and 2019, in respect of the Awarded Shares granted in prior year.

Movements in the number of the Awarded Shares and their related average fair value are as follows:

	2020		2019	
	Average fair value HK\$ per share	Number of shares	Average fair value HK\$ per share	Number of shares
At 1 January	3.54	15,374,599	–	–
Granted	–	–	3.54	15,374,599
Exercised	3.54	(15,003,053)	–	–
Lapsed	3.54	(371,546)	–	–
At 31 December		–		15,374,599

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 34. RESERVES

- (a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.
- (b) The share option and share award reserve comprises the fair value of share options and share awards vested which are yet to be exercised and the share awards granted, as further explained in the accounting policy of share-based payments in note 3.4 to the financial statements. The amount will either be transferred to the share premium account when the related share options and share awards are exercised, or transferred to retained profits should the related share options or share awards lapse or be forfeited.
- (c) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries, joint ventures and associates. None of the Group's PRC reserve funds as at 31 December 2020 and 2019 were distributable in the form of cash dividends.

## 35. PERPETUAL CAPITAL INSTRUMENTS

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At 1 January		<b>6,250,999</b>	6,350,900
Issuance of a perpetual capital instrument		<b>1,187,358</b>	–
Share of profit for the year		<b>261,777</b>	234,830
Distribution for the year		<b>(261,777)</b>	(234,830)
Exchange realignment		<b>372,083</b>	(99,901)
At 31 December		<b>7,810,440</b>	6,250,999
Portion classified as equity attributable to shareholders of the Company	<i>(a)</i>	<b>(1,187,358)</b>	–
Portion directly attributable to holders of perpetual capital instruments	<i>(b)</i>	<b>6,623,082</b>	6,250,999

# NOTES TO FINANCIAL STATEMENTS

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## 35. PERPETUAL CAPITAL INSTRUMENTS *(Continued)*

*Notes:*

- (a) On 11 May 2020, the Company issued a perpetual capital instrument (the “Perpetual Capital Instrument”) with principal amount of RMB1,000,000,000 (approximately HK\$1,123,596,000). Net proceeds after deducting the issuance costs amounted to RMB997,361,000 (approximately HK\$1,187,358,000).

During the year ended 31 December 2020, distributions with an aggregate of RMB25,534,000 (approximately HK\$29,597,000) were declared to the holders of the Perpetual Capital Instrument, which RMB25,534,000 (approximately HK\$29,597,000) have not been paid and recorded in other payables as at 31 December 2020.

- (b) In 2016, a PRC wholly-owned subsidiary of the Group issued two perpetual capital instruments (the “Perpetual Capital Instruments”) with the aggregate principal amount of RMB5,600,000,000 (approximately HK\$6,588,235,000). Net proceeds after deducting the issuance costs amounted to RMB5,563,389,000 (approximately HK\$6,545,163,000).

One of the Perpetual Capital Instruments with a principal amount of RMB2,800,000,000 (approximately HK\$3,294,118,000) is guaranteed by the Company. There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the Group. The Perpetual Capital Instruments are classified as equity instruments.

During the year ended 31 December 2020, distributions with an aggregate of RMB206,640,000 (approximately HK\$232,180,000) (2019: RMB206,650,000 (approximately HK\$234,830,000)) were declared to the holders of the Perpetual Capital Instruments, which RMB48,083,000 (approximately HK\$57,242,000) (2019: RMB48,083,000 (approximately HK\$54,026,000)) have not been paid and recorded in other payables as at 31 December 2020.

# NOTES TO FINANCIAL STATEMENTS

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## 36. BANK AND OTHER BORROWINGS

	2020 HK\$'000	2019 HK\$'000
Bank loans:		
Secured	19,534,461	14,897,328
Unsecured	27,974,813	22,638,038
	<b>47,509,274</b>	37,535,366
Other loans:		
Secured	730,708	306,798
Unsecured	1,393,695	1,534,063
	<b>2,124,403</b>	1,840,861
<b>Total bank and other borrowings</b>	<b>49,633,677</b>	39,376,227
Analysed into:		
Bank loans repayable:		
Within one year or on demand	6,573,423	8,837,512
In the second year	10,427,407	3,730,402
In the third to fifth years, inclusive	18,217,008	16,636,955
Beyond five years	12,291,436	8,330,497
	<b>47,509,274</b>	37,535,366
Other loans repayable:		
Within one year or on demand	251,268	185,680
In the second year	301,766	243,394
In the third to fifth years, inclusive	884,707	458,466
Beyond five years	686,662	953,321
	<b>2,124,403</b>	1,840,861
<b>Total bank and other borrowings</b>	<b>49,633,677</b>	39,376,227
Portion classified as current liabilities	<b>(6,824,691)</b>	(9,023,192)
Non-current portion	<b>42,808,986</b>	30,353,035

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 36. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

(a) The carrying amounts of the Group's bank and other borrowings are denominated in the following currencies:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
HK\$	17,766,070	15,412,415
RMB	29,023,073	20,924,202
US\$	8,086	15,123
EUR	620,382	648,228
SGD	639,396	663,745
AUD	1,534,298	1,670,630
MYR	42,372	41,884
	<b>49,633,677</b>	<b>39,376,227</b>

(b) The effective interest rates (per annum) at the end of the reporting period were as follows:

	2020	2019
Bank loans:		
Secured	1.06% – 5.39%	2.24% – 5.39%
Unsecured	1.70% – 5.94%	1.70% – 5.64%
Other loans:		
Secured	2.43% – 5.40%	1.20% – 5.33%
Unsecured	1.20% – 5.68%	1.20% – 5.68%

(c) Certain of the Group's bank loans are secured by:

- (i) mortgages over certain sewage treatment and water distribution concession rights (comprising operating concessions and receivables under service concession arrangements) in a net carrying amount of HK\$16,235,944,000 (2019: HK\$14,547,127,000) as at 31 December 2020, which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors (note 18);
- (ii) guarantees given by the Company and/or its subsidiaries;
- (iii) bank deposits of HK\$27,114,000 (2019: HK\$5,568,000) pledged to banks for the issuance of guarantees and to secure certain banking facilities granted to the Group;



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 36. BANK AND OTHER BORROWINGS *(Continued)*

*Notes: (Continued)*

(c) *(Continued)*

(iv) mortgages over certain land use rights and buildings and investment properties in Mainland China in an aggregate carrying amount of HK\$1,714,021,000 (2019: HK\$1,657,053,000) (notes 14 and 15); and

(v) pledges over the Group's equity interests in certain subsidiaries.

(d) The Group's bank and other borrowings bear interest at floating rates, except for the following:

(i) bank and other loans in an aggregate principal amount of HK\$299,752,000 (2019: HK\$289,888,000) bearing interest at fixed rates ranging from 1.2% to 6.12% (2019: 1.2% to 6.12%) per annum; and

(ii) Three (2019: three) interest-free government loans in an aggregate principal amount of HK\$23,241,640 (2019: HK\$26,744,000).

(e) Loan agreements of certain bank loans of the Group in an aggregate carrying amount of HK\$18,511,772,000 (2019: HK\$17,672,758,000) as at 31 December 2020 include covenants imposing specific performance obligations on BEHL, a substantial beneficial shareholder of the Company, among which any one of the following events would constitute events of default on the loan facilities:

(i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35%, where applicable, of the issued share capital of the Company;

(ii) if Beijing Enterprises Group Company Limited ("BEGCL"), a substantial shareholder of the Company, does not or ceases to beneficially own, directly or indirectly, at least 40%, where applicable, of the voting rights in BEHL; and/or

(iii) if BEHL/BEGCL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

Based on the directors' best belief and knowledge, none of the above events took place during the year and as at the date of approval of these financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 37. CORPORATE BONDS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Secured corporate bonds repayable:		
Within one year	173,340	228,456
In the second year	154,080	171,342
In the third to fifth years, inclusive	210,735	360,610
	<b>538,155</b>	760,408
Unsecured corporate bonds, repayable:		
Within one year	7,317,390	1,737,701
In the second year	–	6,615,947
In the third to fifth years, inclusive	8,603,740	8,342,918
Beyond five years	3,548,939	1,107,930
	<b>19,470,069</b>	17,804,496
Total corporate bonds	<b>20,008,224</b>	18,564,904
Portion classified as current liabilities	<b>(7,490,730)</b>	(1,966,157)
Non-current portion	<b>12,517,494</b>	16,598,747

Corporate bonds of the Group as at 31 December 2020 and 2019 comprised:

- (i) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the “RMB Bonds”) issued by a wholly-owned subsidiary of the Group to two institutional investors in April 2016 pursuant to the subscription agreement dated 25 April 2016, bearing interest at a rate of 3.60% per annum and are guaranteed by the Company. The RMB Bonds are due for repayment on 25 April 2021. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the subsidiary of the Group shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Group. The Group repaid RMB1,746,599,000 as at 31 December 2019;
- (ii) corporate bonds with an aggregate principal amount of RMB4,000,000,000 (the “Panda Bonds”) issued by the Company to certain institutional investors in July 2016 pursuant to the subscription agreement dated 22 July 2016, bearing interest at rates of 3.00% and 3.33% per annum. The Panda Bonds are due for repayment on 28 July 2021 and 28 July 2023. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company. Further details of the Panda Bonds are set out in the Company’s announcements dated 25 July 2016. The Group repaid RMB1,800,000,000 as at 31 December 2019;

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 37. CORPORATE BONDS *(Continued)*

- (iii) corporate bonds with an aggregate principal amount of RMB700,000,000 (the “Green Bonds”) issued by the Company to certain institutional investors in August 2016, bearing interest at a rate of 3.25% per annum. The Green Bonds are due for repayment on 3 August 2024. Three years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company. Further details of the Green Bonds are set out in the Company’s announcements dated 22 August 2016;
- (iv) corporate bonds with an aggregate principal amount of RMB200,000,000 (the “Second RMB Bonds”) issued by a 60%-owned subsidiary of the Group to two institutional investors in November 2016 pursuant to the subscription agreement dated 14 November 2018. The subsidiary redeemed RMB190,000,000 from the principal amount in November 2018. The remaining portion of the principal amount, which is due on 15 November 2019, bears interest at a rate of 4% per annum and is guaranteed by a wholly-owned subsidiary of the Company. The bonds were fully repaid in 2019;
- (v) corporate bonds with an aggregate principal amount of RMB1,300,000,000 (the “Second Panda Bonds”) issued by the Company to certain institutional investors in August 2017, bearing interest at a rate of 5.20% per annum. The Second Panda Bonds are due for repayment on 2 August 2022. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company. The bonds were fully repaid in 2020;
- (vi) corporate bonds with an aggregate principal amount of MYR400,000,000 (the “MYR Bonds”) issued by a wholly-owned subsidiary to certain institutional investors in July 2017, bearing interest at rates ranging from 5.1% to 5.5% per annum and are guaranteed by the Company. Trade receivables of MYR498,174,000 (equivalent to HK\$959,484,000) (2019: MYR284,698,000 (equivalent to HK\$542,008,000)) (note 27) and amounts due from contract customers of MYR58,257,000 (equivalent to HK\$112,203,000) (2019: MYR193,193,000 (equivalent to HK\$367,801,000)) (note 26) were designated as a charge for the repayment of the MYR Bonds. The MYR Bonds are due for repayment starting from 17 July 2020. The Group repaid MYR120,000,000 during the year ended 31 December 2020;
- (vii) corporate bonds with an aggregate principal amount of US\$500,000,000 (the “US\$ Bonds”) issued by a wholly-owned subsidiary to certain institutional investors in May 2018, bearing interest rate of 4.95% per annum and are guaranteed by the Company. The Second US\$ Bonds are due for repayment in May 2023;
- (viii) corporate bonds with an aggregate principal amount of RMB3,000,000,000 (the “Third Panda Bonds”) issued by the Company to certain institutional investors in May 2018 pursuant to the offering announcement dated 28 May 2018, bearing interest at rates of 4.92% and 5.1% per annum. The Third Panda Bonds are due for repayment on 25 May 2023 and 25 May 2025. Two years prior to the maturity, the company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company;

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 37. CORPORATE BONDS *(Continued)*

- (ix) corporate bonds with an aggregate principal amount of RMB3,000,000,000 (the “Fourth Panda Bonds”) issued by the Company to certain institutional investors in July 2018 pursuant to the offering announcement dated 16 July 2018, bearing interest at rates of 4.45% and 4.72% per annum. The Fourth Panda Bonds are due for repayment on 20 July 2023 and 20 July 2025. Two years prior to the maturity, the company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company;
- (x) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the “Fifth Panda Bonds”) issued by the Company to certain institutional investors in January 2019 pursuant to the offering announcement dated 11 January 2019, bearing interest at rates of 3.95% and 4.49% per annum. The Fifth Panda Bonds are due for repayment on 11 January 2026 and 11 January 2029. For the bonds that due in 2026, two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company; and
- (xi) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the “Sixth Panda Bonds”) issued by a wholly-owned subsidiary to certain institutional investors in February 2020 pursuant to the subscription agreement dated 27 February 2020, bearing interest at rates of 3.43% and 3.98% per annum. The Sixth Panda Bonds are due for repayment on 5 March 2028 and 5 March 2030. For the bonds that due in 2028, three years prior to the maturity, the company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company.

The corporate bonds at 31 December 2020 will be due for repayment on the aforementioned maturity dates unless being redeemed prior to their maturity pursuant to the terms thereof and of the indenture. In addition, the US\$ Bonds, the Third Panda Bonds, the Fourth Panda Bonds and the Fifth Panda Bonds include covenants imposing specific performance obligations on BEHL, among which any one of the following events would constitute events of default:

- (i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;
- (ii) if BEHL does not or ceases to supervise the Company;
- (iii) if BEHL is not or ceases to, directly or indirectly, the single largest shareholder of the Company; and/or
- (iv) if the nominees of BEHL cease to comprise the majority of the members of the Company’s board of directors.

Based on the best belief and knowledge of the Company’s directors, none of the above events took place during the year and as at the date of approval of these financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 38. NOTES PAYABLE

Notes payable of the Group as at 31 December 2020 and 2019 comprised:

- (i) a corporate note issued on 8 November 2013 with a principal amount of RMB2,000,000,000 (the “RMB Note”) which is unsecured and wholly repayable in the third to fifth years, inclusive, from the end of the reporting period. The note payable is guaranteed by the Company, bears interest at a rate of 6.15% per annum and is due for repayment on 14 November 2022 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement; and
- (ii) a corporate note issued on 8 May 2015 with a principal amount of HK\$700,000,000 (the “HK\$ Note”) which is unsecured and bears interest at a rate of 3.9% per annum. The note payable is guaranteed by the Company and due for repayment on 15 May 2020 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement. The HK\$ Note was fully redeemed during the year.

The notes payable include covenants imposing specific performance obligations on BEHL, among which any one of the following events would constitute events of default:

- (i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;
- (ii) if BEHL does not or ceases to supervise the Company;
- (iii) if BEHL is not or ceases to be, directly or indirectly, the single largest shareholder of the Company;
- (iv) if the nominees of BEHL cease to comprise the majority of the members of the Company’s board of directors; and/or
- (v) if BEHL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality.

Based on the best belief and knowledge of the Company’s directors, none of the above events took place during the year and as at the date of approval of these financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 39. PROVISION FOR MAJOR OVERHAULS

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

The movements in the provision for major overhauls of the Facilities during the year are as follows:

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	2019 <i>HK\$'000</i>
At 1 January		<b>242,562</b>	210,949
Arising from acquisition	46	–	3,671
Provision for the year	7	<b>209,024</b>	175,178
Increase in discounted amounts arising from the passage of time	8	<b>24,262</b>	21,016
Amount utilised during the year		<b>(235,503)</b>	(164,862)
Disposal of subsidiaries	47	<b>(20,779)</b>	(826)
Exchange realignment		<b>10,930</b>	(2,564)
At 31 December		<b>230,496</b>	242,562

## 40. DEFERRED INCOME

Deferred income of the Group mainly represented government subsidies received in respect of the Group's construction of sewage treatment and water distribution facilities in the PRC and receipt in advance of certain guarantee receipts of sewage water treatment related to the transfer of financial assets.

These government subsidies are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 41. DEFERRED TAX

Net deferred tax assets/(liabilities) recognised in the consolidated statement of financial position are as follows:

	2020 HK\$'000	2019 HK\$'000
Deferred tax assets	264,250	347,683
Deferred tax liabilities	(4,096,254)	(3,480,180)
	<b>(3,832,004)</b>	<b>(3,132,497)</b>

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

	Notes	Attributable to					Losses available for offsetting against future taxable profits HK\$'000	Net deferred tax assets/(liabilities) HK\$'000
		Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Impairment provision HK\$'000	Provision for major overhauls HK\$'000	Temporary differences related to service concession arrangements HK\$'000	Revaluation of properties HK\$'000		
At 1 January 2019		(253,461)	6,862	89,305	(2,102,356)	(9,397)	2,273	(2,266,774)
Acquisition of subsidiaries	46	(71,725)	-	-	-	-	-	(71,725)
Disposal of subsidiaries	47	-	-	(207)	4,301	-	-	4,094
Deregistration of subsidiaries		185	-	-	-	-	-	185
Net deferred tax credited/(charged) to profit or loss	11	(4,324)	20,306	1,095	(862,062)	-	-	(844,985)
Exchange realignment		4,036	(346)	(2,015)	44,940	148	(55)	46,708
At 31 December 2019 and 1 January 2020		(325,289)	26,822	88,178	(2,915,177)	(9,249)	2,218	(3,132,497)
Disposal of subsidiaries	47	-	(3,645)	(5,195)	70,518	-	-	61,678
Net deferred tax credited/(charged) to profit or loss	11	(6,404)	163,340	(406)	(704,068)	-	-	(547,538)
Exchange realignment		(19,744)	11,358	7,895	(212,809)	(551)	204	(213,647)
At 31 December 2020		(351,437)	197,875	90,472	(3,761,536)	(9,800)	2,422	(3,832,004)

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 41. DEFERRED TAX *(Continued)*

Notes:

- (a) At 31 December 2020, deferred tax assets have not been recognised in respect of unused tax losses of HK\$549,850,000 (2019: HK\$501,773,000) as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, unrecognised tax losses of HK\$77,731,000 (2019: HK\$24,627,000) will expire in one to five years.
- (b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors of the Company, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$6,771,563,000 (2019: HK\$5,449,441,000) as at 31 December 2020.

## 42. TRADE PAYABLES

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 3 months	12,337,507	12,528,591
4 to 6 months	2,626,275	3,251,065
7 months to 1 year	3,111,790	3,568,579
1 to 2 years	4,408,766	3,970,541
2 to 3 years	1,917,398	2,046,778
Over 3 years	1,891,898	1,401,058
Balance with extended credit period	128,072	126,378
	<b>26,421,706</b>	<b>26,892,990</b>



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 42. TRADE PAYABLES *(Continued)*

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

The Group's trade payables as at 31 December 2020 included, inter alia, an amount of HK\$3,450,000 (2019: HK\$3,405,000) due to an associate of the Group, arising from the construction of certain sewage treatment facilities carried out in the ordinary course of business of the Group. No construction service was provided and no amount was charged during the years ended 31 December 2020 and 2019.

## 43. OTHER PAYABLES AND ACCRUALS

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
Accruals		<b>1,492,655</b>	1,276,167
Other liabilities	<i>(a)</i>	<b>4,114,104</b>	3,786,316
Contract liabilities	<i>(b)</i>	<b>1,341,315</b>	1,095,259
Due to subcontractors	<i>(c)</i>	<b>918,710</b>	933,742
Due to joint ventures	<i>20(d)</i>	<b>2,124,076</b>	1,610,261
Due to associates	<i>21(b)</i>	<b>60,738</b>	62,000
Due to non-controlling equity holders		<b>5,832</b>	106,562
Due to related parties	<i>(d)</i>	<b>316,916</b>	477,412
Other taxes payables	<i>44</i>	<b>591,076</b>	665,355
		<b>10,965,422</b>	10,013,074
Portion classified as current liabilities		<b>(9,639,580)</b>	(8,972,912)
Non-current portion		<b>1,325,842</b>	1,040,162

*Notes:*

(a) The Group's other liabilities as at 31 December 2020 and 2019 included, inter alia, the following:

- (i) outstanding considerations in an aggregate amount of HK\$822,685,000 (2019: HK\$795,154,000) payable to various governmental authorities in Mainland China for the construction or transfer of sewage treatment and water distribution facilities to the Group under the BOT or TOT arrangements; and
- (ii) outstanding considerations in an aggregate amount of HK\$334,548,000 (2019: HK\$371,654,000) payable to various independent third parties for the acquisition of subsidiaries of HK\$7,238,000 (2019: HK\$238,878,000) was attributable to the acquisition completed during the year.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 43. OTHER PAYABLES AND ACCRUALS *(Continued)*

*Notes: (Continued)*

(b) Details of contract liabilities are as follows:

	31 December 2020 <i>HK\$'000</i>	31 December 2019 <i>HK\$'000</i>	1 January 2019 <i>HK\$'000</i>
Construction services	1,252,312	1,001,153	556,863
Others	89,003	94,106	76,807
Total contract liabilities	<b>1,341,315</b>	1,095,259	633,670

The increase in contract liabilities in 2020 and 2019 was mainly due to the increase in short-term advances received from customers in relation to the provision of construction, technical and consultancy services at the end of the year.

- (c) The amounts due to subcontractors of the Group as at 31 December 2020 included refunds from certain subcontractors of advances made by the Group for certain construction services for comprehensive renovation projects in an aggregate amount of HK\$375,560,000 (2019: HK\$354,461,000), as further detailed in note 28 to the financial statements.
- (d) Included in the amounts due to related parties of the Group as at 31 December 2020 was an advance from a related party of SGD12,715,000 (equivalent to HK\$74,583,000) (2019: SGD12,715,000 (equivalent to HK\$73,618,000)). The amount is unsecured, bears interest at a fixed rate of 2.5% per annum and is repayable by quarterly instalments. Interest expense of HK\$1,792,000 (2019: HK\$2,199,000) was recognised in profit or loss during the year ended 31 December 2020.
- (e) Other payables are non-interest-bearing and have an average credit term of three months.

## 44. OTHER TAXES PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Business tax	35,443	15,431
Value-added taxes	451,943	506,802
Others	103,690	143,122
	<b>591,076</b>	665,355

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 45. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

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

	BEWG Environmental Group (note (a)) 2020	BCEG Environmental and its subsidiaries ("BCEG Group") 2020	2019
Percentage of equity interest held by non-controlling interests	14.55%	48.73%*	40%
	2020 HK\$'000	2020 HK\$'000	2019 HK\$'000
Profit for the year allocated to non-controlling interests	255,995	186,101	105,790
Accumulated balances of non-controlling interests at the reporting date	5,831,104	1,598,536	1,372,911

\* The increase in percentage of equity interest held by non-controlling interests was due to the capital contributions from a non-controlling equity holder, details of which are included in note 1 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 45. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

(Continued)

The following table illustrates the summarised financial information of the above group. The amounts disclosed are before any inter-company eliminations:

	<b>BEWG Environmental Group 2020 HK\$'000</b>	<b>BCEG Group 2020 HK\$'000</b>	2019 HK\$'000
Revenue	5,083,854	951,591	567,538
Interest income	222,101	6,491	9,808
Total expenses	(776,915)	(88,967)	(63,493)
Profit for the year	2,053,031	328,422	212,234
Total comprehensive income for the year	2,816,380	420,559	152,218
Current assets	15,465,153	1,128,613	1,354,056
Non-current assets	39,813,932	3,482,225	2,766,126
Current liabilities	(22,835,116)	(1,138,636)	(1,066,829)
Non-current liabilities	(10,778,453)	(889,649)	(877,173)
Net cash flows used from/(used in):			
Operating activities	(2,946,881)	488,144	240,623
Investing activities	(1,029,708)	18,507	(22,105)
Financing activities	3,329,171	(124,813)	(152,972)
Net increase/(decrease) in cash and cash equivalents	(647,418)	381,838	65,546

Note:

- (a) In December 2020, the Group entered into a capital injection agreement with an independent third party ("the investor"), pursuant to which the investor agreed to make cash contributions of RMB2 billion to BEWG Environmental. Upon completion of the capital injections, the Group's percentage of shareholding in BEWG Environmental was diluted from 100% to 85.45%, and BEWG Environmental and its subsidiaries ("BEWG Environmental Group") became partly-owned subsidiaries with a material non-controlling interest. The investor is entitled to the expected principal and return.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 45. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

*(Continued)*

*Note: (Continued)*

(a) *(Continued)*

After the completion of the capital injection, the Group is entitled at its discretion to acquire the equity interest in BEWG Environmental. In the event of any of the following specific circumstances occurs, amongst others, the Group shall have the option to purchase the equity interest at its discretion from the investor, including but not limited to:

- (i) BEWG Environmental is unable to complete a qualified listing of its shares within 12 months before 2030.
- (ii) BEWG Environmental is unable to meet the performance requirements as stipulated in the capital injection agreement.
- (iii) BEWG Environmental is unable to meet the distributable profits requirements as stipulated in the capital injection agreement.
- (iv) BEWG Environmental is unable to meet the net asset value requirements from 2025 as stipulated in the capital injection agreement.
- (v) Valuation of BEWG Environmental is less than the agreed valuation as stipulated in the capital injection agreement.

Upon the occurrence of the above circumstances, but the Group does not exercise the option to purchase the equity interest, the investor shall have the following rights:

- (i) to request to amend the articles of association of BEWG Environmental, such that the investor will hold (i) two-thirds or more of the voting rights in the shareholders' meeting of BEWG Environmental; and (ii) two-thirds or more of the voting rights in the board of directors of BEWG Environmental by adjusting the composition of the board of directors of BEWG Environmental;
- (ii) to exercise the drag-along right to sell the equity interest based on the fair value determined by an independent valuer and provided that the Group shall procure other original shareholders of BEWG Environmental to use their best endeavours to assist the investor in exercising the drag-along right;
- (iii) to request to increase the dividend ratio; and
- (iv) to request the Group to inject cash for their responsible part of unpaid capital injections.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 46. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year ended 31 December 2020 as at their respective dates of acquisition are set out as follows:

	<i>Note</i>	<b>2020 HK\$'000</b>
Property, plant and equipment		8,147
Investments in joint ventures		75,520
Other intangible assets		312
Inventories		1
Trade receivables	<i>(c)</i>	18,581
Prepayments, deposits and other receivables	<i>(c)</i>	245,436
Cash and cash equivalents		97,270
Trade payables		(1,395)
Other payables and accruals		(30,946)
Income tax payables		(4,608)
Deferred income		(2,766)
<b>Total identifiable net assets at fair value</b>		<b>405,552</b>
<b>Non-controlling interests</b>		<b>(16,709)</b>
		<b>388,843</b>
Goodwill on acquisition		32,784
Gains on bargain purchase		(23,188)
		<b>398,439</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 46. BUSINESS COMBINATIONS *(Continued)*

	2020 <i>HK\$'000</i>
Satisfied by:	
Cash	126,292
Reclassified from investment in joint ventures	145,215
Waive of other receivables	126,932
	<b>398,439</b>
Revenue for the year since acquisition <sup>#</sup>	<b>104,548</b>
Profit for the year since acquisition	<b>76,041</b>

<sup>#</sup> *Revenue for the year since acquisition comprises revenue, interest income and other income and gains, net.*

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 46. BUSINESS COMBINATIONS *(Continued)*

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year ended 31 December 2019 as at their respective dates of acquisition are set out as follows:

	2019		Total HK\$'000
	Hong Kong HK\$'000	Others HK\$'000	
Property, plant and equipment	11,393	235,471	246,864
Operating concessions	60,678	377,332	438,010
Right-of-use assets	–	13,729	13,729
Amount due from contract customers	–	2,786,063	2,786,063
Receivables under service concession arrangements	–	1,027,844	1,027,844
Inventories	–	3,105	3,105
Trade receivables	9,746	10,985	20,731
Prepayments, deposits and other receivables	747	86,833	87,580
Cash and cash equivalents	85,430	60,020	145,450
Trade payables	(539)	(783,426)	(783,965)
Other payables and accruals	(4,649)	(1,040,081)	(1,044,730)
Provision for major overhauls	–	(3,671)	(3,671)
Income tax payables	(9,219)	(33,848)	(43,067)
Bank and other borrowings	–	(712,233)	(712,233)
Deferred income	–	(3,580)	(3,580)
Deferred tax liabilities	(10,068)	(61,657)	(71,725)
Total identifiable net assets at fair value	143,519	1,962,886	2,106,405
Non-controlling interests	(21,528)	(115,381)	(136,909)
	121,991	1,847,505	1,969,496
Goodwill on acquisition	171,891	139,005	310,896
Gains on bargain purchase	–	(78,275)	(78,275)
	293,882	1,908,235	2,202,117



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 46. BUSINESS COMBINATIONS *(Continued)*

	Hong Kong <i>HK\$'000</i>	2019 Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Satisfied by:			
Cash	293,882	1,104,394	1,398,276
Reclassified from investment in joint ventures	–	689,672	689,672
Exchange of subsidiaries	–	114,169	114,169
	293,882	1,908,235	2,202,117
Revenue for the year since acquisition <sup>#</sup>	–	266,667	266,667
Profit for the year since acquisition	–	81,854	81,854

<sup>#</sup> *Revenue for the year since acquisition comprises revenue, interest income and other income and gains, net.*

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cash consideration	<b>(126,292)</b>	(1,398,276)
Cash and cash equivalents acquired	<b>97,270</b>	145,450
Consideration payable as at year end	<b>7,238</b>	238,878
Investment deposits paid in prior year	<b>22,472</b>	83,276
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	<b>688</b>	(930,672)

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK\$5,217,102,000 (2019: HK\$5,965,893,000) and the Group's revenue would have been HK\$25,492,975,000 (2019: HK\$28,558,848,000).

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 46. BUSINESS COMBINATIONS *(Continued)*

*Notes:*

- (a) Business combinations during the year ended 31 December 2020 included, inter alia, the following material transactions:
- (i) in January 2020, the Group completed the acquisition of the 21% equity interest in a company which is engaged in the provision of consultancy services in the PRC, at a cash consideration of RMB20,000,000 (equivalent to HK\$22,472,000) from a joint venture partner. The company became a wholly-owned subsidiary since then; and
  - (ii) in September 2020, the Group completed the acquisition of the 58% equity interest in a company which is engaged in the provision of consultancy services and fund management service in the PRC, at an aggregate cash consideration of RMB60,399,000 (equivalent to HK\$67,865,000) from joint venture partners. The company became a wholly-owned subsidiary since then. The Group had gain on bargain purchase of HK\$23,188,000 for the year ended 31 December 2020 resulted from strategic cooperation with the joint venture partner.

The purpose of the above acquisitions is to expand the operations of the Group in the respective fields.

The goodwill arisen on the above acquisitions is attributable to the benefits of synergies and expected business growth as a result of future market development.

- (b) Business combinations during the year ended 31 December 2019 included, inter alia, the following material transactions:
- (i) in January 2019, the Group completed the acquisition of the 100% equity interest in a company which is engaged in the provision of construction services in Inner Mongolia, the PRC, at an aggregate cash consideration of HK\$434,964,000 from a joint venture. The Group had gain on bargain purchase of HK\$78,275,000 for the year ended 31 December 2019 resulted from strategic cooperation with the joint venture partner;
  - (ii) in January 2019, the Group completed the acquisition of the 90% equity interest in a company which is engaged in the provision of water supply services in Hunan Province, the PRC, at an aggregate cash consideration of HK\$342,124,000; and
  - (iii) in December 2019, the Group completed the acquisition of the 85% equity interest in two Hong Kong companies which are engaged in the provision of marine refuse cleansing services and marine oil pollution cleaning services in Hong Kong, at a total cash consideration of HK\$293,882,000 from independent third parties. As part of the equity transfer agreement, the aggregate cash consideration would be reduced in the years ending 30 September 2020 and 2022 if the financial results are less than certain specified amounts. No contingent assets were recognised as the forecasted result were closed to the specified amounts.

The purpose of the above acquisition is to expand the operations of the Group in the respective fields.

The goodwill arisen on the above acquisitions is attributable to the benefits of synergies and expected business growth as a result of future market development.

- (c) The fair values of trade receivables, deposits and other receivables as at the respective dates of acquisitions during the year ended 31 December 2020 amounted to HK\$18,581,000 and HK\$245,436,000, respectively.

The gross contractual amounts of trade receivables, deposits and other receivables were HK\$18,581,000 and HK\$245,436,000, respectively, of which none of them are expected to be uncollectible.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 47. DISPOSAL/DEREGISTRATION OF SUBSIDIARIES

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i> <i>(note (a))</i>	2019 <i>HK\$'000</i> <i>(note (b))</i>
Net assets disposed/deregistered of:			
Property, plant and equipment		24,973	559
Goodwill		9,856	7,665
Operating concessions		209,796	206
Other intangible assets		9	–
Amounts due from contract customers		142,715	2,373
Receivables under service concession arrangements		1,895,647	190,246
Trade receivables		–	731
Deferred tax assets		3,645	–
Inventories		183	82
Prepayments, deposits and other receivables		84,570	–
Cash and cash equivalents		11,951	453
Deferred income		(4,212)	–
Trade payables		(53,732)	(43,911)
Other payables and accruals		(660,874)	(6,253)
Income tax payables		(9,457)	(494)
Bank and other borrowings		(335,165)	(47,532)
Provision for major overhauls		(20,779)	(826)
Deferred tax liabilities		(65,323)	(4,094)
Non-controlling interests		(490,420)	–
		<b>743,383</b>	99,205
Exchange fluctuation reserve realised		2,871	(372)
Gain on disposal of subsidiaries, net		5,912	33,126
Derecognition of non-controlling interests upon deregistration of a subsidiary		1,011	–
		<b>753,177</b>	131,959
Satisfied by:			
Cash		204,456	1,622
Reclassified to equity investment designated at fair value through other comprehensive income	<i>(b)(ii)</i>	–	1,238
Reclassified to an associate	<i>(b)(ii)</i>	–	14,930
Reclassified to a joint venture	<i>(a)(i)</i>	548,721	–
Exchange of subsidiaries	<i>(b)(ii)</i>	–	114,169
		<b>753,177</b>	131,959

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 47. DISPOSAL/DEREGISTRATION OF SUBSIDIARIES *(Continued)*

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cash consideration	204,456	1,622
Cash and bank balances disposed of	(11,951)	(453)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	192,505	1,169

*Notes:*

- (a) The Group completed the following material disposal of subsidiaries during the year ended 31 December 2020:
- (i) in January 2020, the Group lost control on a 41.78% owned subsidiary engaging in the sewage treatment services in the PRC, due to the loss of control over its board of directors according to the supplemental equity transfer agreement. The equity interest was reclassified to an investment in a joint venture since then;
  - (ii) in December 2020, the Group disposed of a 100% equity interest in a subsidiary engaging in the sewage treatment services in the PRC, for a cash consideration of HK\$153,985,000 to an independent third party; and
  - (iii) in December 2020, the Group disposed of a 100% equity interest in a subsidiary engaging in the sewage treatment services in the PRC, for a cash consideration of RMB44,919,000 (equivalent to HK\$50,471,000) to an independent third party.
- (b) The Group completed the following disposal of subsidiaries during the year ended 31 December 2019:
- (i) in June 2019, the Group disposed of a 100% equity interest in a subsidiary engaging in the sewage treatment services in the PRC, for a cash consideration of HK\$1,622,000 to an independent third party; and
  - (ii) in September 2019, the Group disposed of 66.78% and 98.55% of two indirect-wholly-owned subsidiaries in exchange of 100% equity interest of a group of entities from a joint venture. All the entities are engaged in the provision of sewage treatment services in the PRC. The remaining interests in the then subsidiaries are reclassified to an equity investment designated at fair value through other comprehensive income and investment in an associate.

## 48. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transaction

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$13,225,000 (2019: HK\$55,879,000) and HK\$13,225,000 (2019: HK\$55,879,000), respectively, in respect of lease arrangements for various assets.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 48. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

### (b) Changes in liabilities arising from financing activities

	Bank and other borrowings <i>HK\$'000</i>	Lease liabilities <i>HK\$'000</i>	Corporate bonds <i>HK\$'000</i>	Notes payable <i>HK\$'000</i>
At 1 January 2020	39,376,227	523,343	18,564,904	2,944,769
Changes from financing cash flows	9,020,570	(171,499)	839,660	(700,000)
New leases	–	13,225	–	–
Interest expense	13,266	19,655	24,333	990
Decrease arising from disposal of subsidiaries	(335,165)	–	–	–
Foreign exchange movement	1,558,779	24,200	579,327	133,945
At 31 December 2020	49,633,677	408,924	20,008,224	2,379,704
	Bank and other borrowings <i>HK\$'000</i>	Lease liabilities <i>HK\$'000</i>	Corporate bonds <i>HK\$'000</i>	Notes payable <i>HK\$'000</i>
At 1 January 2019	32,073,399	562,304	20,574,406	2,978,957
Changes from financing cash flows	6,884,698	(113,526)	(1,784,010)	–
New leases	–	55,879	–	–
Interest expense	–	25,170	27,719	1,686
Increase arising from acquisition of subsidiaries	712,233	–	–	–
Decrease arising from disposal of subsidiaries	(47,532)	–	–	–
Foreign exchange movement	(246,571)	(6,484)	(253,211)	(35,874)
At 31 December 2019	39,376,227	523,343	18,564,904	2,944,769

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 49. CONTINGENT LIABILITIES

As at 31 December 2020, bank guarantees in favour of employers in lieu of deposits for project bidding and project performance of HK\$1,145,819,000 (2019: HK\$669,696,000) were outstanding and corporate guarantees of HK\$3,992,594,000 (2019: HK\$3,085,661,000) were given to banks and/or institutional investors in connection with facilities granted to certain associates, joint ventures and independent third parties and bonds issued by joint ventures.

Save as disclosed above, as at 31 December 2020, the Group did not have any significant contingent liabilities.

## 50. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank and other borrowings and corporate bonds are included in notes 36 and 37 to the financial statements, respectively. In addition, the Group's bank guarantee facility is secured by pledged time deposits of the Group as detailed in note 30(a)(ii).

## 51. CAPITAL COMMITMENTS

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Contracted, but not provided for:		
New service concession arrangements on:		
TOT basis	681,775	520,585
BOT basis	9,044,515	8,953,092
Build-Own-Operate basis	38,467	215,471
Capital contribution to joint ventures	11,306,099	10,670,925
	<b>21,070,856</b>	20,360,073

In addition, the Group's share of the joint ventures' own capital commitments, which are not included in the above, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Contracted, but not provided for	1,690,600	1,037,868

Save as disclosed above, at 31 December 2020, the Group did not have any significant commitments.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 52. RELATED PARTY TRANSACTIONS

(a) The Group had engaged a related company of the Group to provide water treatment engineering services for a water supply plant located in Malaysia at a service fees HK\$36,676,000 (MYR19,872,000) (2019: HK\$26,673,000 (MYR14,107,000)), which were charged at the published prices and conditions offered by the related company to its major customers.

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

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively “Other SOEs”). During the year, the Group had transactions with the Other SOEs including, but not limited to, the sale of piped water, provision of sewage treatment and construction services, bank deposits and borrowings, and utilities consumptions. The directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group’s business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies are not carried out on non-market terms and do not depend on whether or not the customers are the Other SOEs. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions is material related party transaction that would require separate disclosure.

### (c) Compensation of key management personnel of the Group

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Short term employee benefits	21,357	20,480
Equity-settled share award expense	8,933	8,933
Pension scheme contributions	288	297
Total compensation paid to key management personnel	<b>30,578</b>	29,710

Further details of directors’ emoluments are included in note 9 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 52. RELATED PARTY TRANSACTIONS *(Continued)*

- (d) On 30 October 2017, the Company and Beijing Enterprises Group Finance Co. Ltd. (“BG Finance”) entered into a 2018 deposit services master agreement (the “2018 Deposit Agreement”) whereby the Company and BG Finance continue to carry out the transactions of a similar nature from time to time under the 2018 Deposit Agreement for three years from 1 January 2018 to 31 December 2020, with the terms and conditions substantially the same as those under the deposit services master agreement and its supplemental agreement signed by both parties in 2015. BG Finance is a non-wholly-owned subsidiary of BEGCL and an associate of BEHL and acts as a platform for members of BEGCL and BEHL for the provision of intra-group facilities through financial products including deposit-taking, money lending and custodian services. The daily aggregate of deposits placed by the Group with BG Finance (including any interest accrued thereon) during the terms of the 2018 Deposit Agreement shall not exceed HK\$2,900,000,000.

On 23 December 2020, the Company and BG Finance further entered into a 2021 deposit services master agreement (the “2021 Deposit Agreement”) whereby the Company and BG Finance continue to carry out the transactions of similar natures from time to time under the 2021 Deposit Agreement for three years from 1 January 2021 to 31 December 2023, with the terms and conditions substantially the same as those under the 2018 Deposit Agreement together with the supplemental agreement. The daily aggregate of deposits placed by the Group with BG Finance (including any interest accrued thereon) during the terms of the 2021 Deposit Agreement shall not exceed HK\$1,520,000,000.

The deposits placed by the Group with BG Finance as at the end of the year amounted to HK\$2,599,712,000 (2019: HK\$2,756,679,000). The related interest income recognised in profit or loss during the year was not significant to the Group.

The above related party transaction also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

Loans borrowed from BG Finance by the Group as at the end of the reporting period amounted to HK\$3,830,517,000 (2019: HK\$1,089,858,000) and bear interest at floating rates ranging from 4.36% to 5.05% per annum (2019: from 4.66% to 5.15% per annum). The related interest expenses recognised in profit or loss during the year were not significant to the Group.



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 52. RELATED PARTY TRANSACTIONS *(Continued)*

- (e) On 13 January 2020, the capital injection in cash by ABC Financial Asset Investment Co., Ltd\* (農銀金融資產投資有限公司) (“ABC Financial”) into Beijing Enterprises (Guangxi) Holdings Co., Ltd.\* (北控水務(廣西)集團有限公司) (“Bei Kong Guangxi Capital Injection”), a subsidiary of the Group, was completed. Prior to completion of the Bei Kong Guangxi Capital Injection, the Group had entered into transactions with Agricultural Bank of China Limited\* (中國農業銀行股份有限公司) (“ABC”) and its subsidiaries (“ABC Group”) relating to the provision of deposit services, settlement and other financial services. Upon completion of the Bei Kong Guangxi Capital Injection, ABC Financial holds 45.55% of Bei Kong Guangxi. As ABC is the ultimate controlling shareholder of ABC Financial, members of ABC Group have become connected persons of the Group. Hence, such transactions became continuing connected transactions of the Group following completion of the Bei Kong Guangxi Capital Injection pursuant to Chapter 14A of the Listing Rules. The maximum daily aggregate deposits placed by the Group with ABC Group (including any interest accrued thereon) for three financial years ending 31 December 2020 to 2022 shall not exceed RMB3,000,000,000 (equivalent to approximately HK\$3,338,527,000), respectively.

The deposits placed by the Group with ABC Group as at 31 December 2020 amounted to RMB219,828,000 (HK\$261,700,000). The related interest income recognised in profit or loss during the year was not significant to the Group.

The above related party transaction also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

- (f) On 30 November 2020, Linyi Bei Kong Beicheng Water Co., Ltd.\* (臨沂北控北城水務有限公司) (“Linyi Bei Kong”), a subsidiary of the Group, entered into a loan agreement with ABC. Pursuant to the loan agreement, ABC has agreed to grant a loan facility in a principal amount of RMB150,000,000 (equivalent to HK\$176,800,000) to Linyi Bei Kong (the “Linyi Loan Facility”). The Linyi Loan Facility shall be secured by the pledge of security given by Linyi Bei Kong and the guarantee will be given by Beijing Enterprises Water Group (China) Investment Limited, a wholly-owned subsidiary of the Group, in favour of ABC.

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 52. RELATED PARTY TRANSACTIONS *(Continued)*

- (g) On 30 November 2020, Shandong Zhong Cai Mo Rui Water Limited\* (山東中材默銳水務有限公司) (“SD Zhong Cai”), a subsidiary of the Group, entered into a finance lease agreement with BG Finance. Pursuant to the finance lease agreement, SD Zhong Cai has agreed to transfer and change the registration of the ownership of membrane material and construction, contact oxidation tank system, homogeneous filter tank system and pipeline under the name of BG Finance from SD Zhong Cai for a transfer consideration of RMB65,000,000 (equivalent to HK\$76,615,000), and BG Finance has then agreed to lease to SD Zhong Cai with the lease principal of RMB65,000,000 (equivalent to HK\$76,615,000) and the lease interest of approximately RMB17,019,000 (equivalent to approximately HK\$20,060,000).

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

- (h) The Group had provided management services to joint ventures of the Group for HK\$28,650,000 (RMB25,498,000) (2019: HK\$19,204,000 (RMB16,900,000)) and the fee was charged based on terms mutually agreed between the Group and the joint ventures during the year ended 31 December 2020.
- (i) The Group had leased certain office premises to an associate of the Group for HK\$11,808,000 (RMB10,509,000) (2019: HK\$10,838,000 (RMB9,538,000)) which was charged based on terms mutually agreed between the Group and the associate.
- (j) The Group had provided construction services for comprehensive renovation projects located in Nanjing City and Fuzhou City in the PRC to joint ventures of the Group for an aggregate amount of HK\$443,771,000 (RMB394,956,000) (2019: HK\$689,522,000 (RMB606,779,000)) during the year ended 31 December 2020 and the fees were charged based on terms mutually agreed between the Group and the joint ventures during the year ended 31 December 2020.

Save as disclosed above and the transactions and balances detailed elsewhere in the financial statements, the Group had no other material transactions and outstanding balances with related parties during the years ended 31 December 2020 and 2019.

\* For identification purpose only

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 53. FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

### Assets measured at fair value:

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
At 31 December 2020				
Investment properties	–	–	855,598	855,598
Financial asset at fair value through profit or loss	–	–	68,036	68,036
Equity investments designated at fair value through other comprehensive income	880,910	62,279	467,710	1,410,899
<b>Total</b>	<b>880,910</b>	<b>62,279</b>	<b>1,391,344</b>	<b>2,334,533</b>
At 31 December 2019				
Investment properties	–	–	806,785	806,785
Financial asset at fair value through profit or loss	–	–	80,258	80,258
Equity investments designated at fair value through other comprehensive income	921,048	62,279	421,052	1,404,379
<b>Total</b>	<b>921,048</b>	<b>62,279</b>	<b>1,308,095</b>	<b>2,291,422</b>

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, corporate bonds, notes payable, cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, trade payables, other payables and amounts due from/to related parties which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors of the Company review and agree policies for managing each of these risks and they are summarised below.

### Interest rate risk

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations.

Banks and other borrowings, corporate bonds, notes payable, cash and bank balances are stated at amortised cost and are not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

At 31 December 2020, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings, lease liabilities, and cash and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax for the year ended 31 December 2020 by approximately HK\$306,324,000 (2019: HK\$232,350,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China, the Group's statement of financial position can be affected significantly by movements in the RMB/HK\$ exchange rate.

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

	Increase/ (decrease) in profit before tax <i>HK\$'000</i>	Increase/ (decrease) in equity <i>HK\$'000</i>
<b>31 December 2020</b>		
If Hong Kong dollar weakens against RMB by 5%	<b>385,502</b>	<b>2,870,133</b>
If Hong Kong dollar strengthens against RMB by 5%	<b>(385,502)</b>	<b>(2,870,133)</b>
<b>31 December 2019</b>		
If Hong Kong dollar weakens against RMB by 5%	446,449	2,294,365
If Hong Kong dollar strengthens against RMB by 5%	(446,449)	(2,294,365)

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

### Credit risk

The main credit risk exposure to the Group arises from default or delinquency in principal payments of trade receivables, receivables under service concession arrangements and amounts due from contract customers. In respect of these receivables, the Group trades mainly with municipal governments in different provinces which do not have significant credit risk. In addition, these receivables are monitored on an ongoing basis. Therefore, in the opinion of the directors, the credit risk is not significant.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### **Credit risk** *(Continued)*

#### *Maximum exposure and year-end staging*

Management groups financial instruments on basis of shared credit risk characteristics, such as instrument type and credit risk ratings for the purpose of determining significant increase in credit risk and calculation of impairment. The gross carrying amount of each financial asset in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets as at 31 December 2020 and 2019.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or past due event;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation.

To manage credit risk arising from debtors and contract assets, the credit quality of the debtors is assessed, taking into account their financial position, historical settlement records, past experience and other factors. The Group applies the general approach to provide for ECLs prescribed by HKFRS 9. The determination of the ECLs also incorporated forward looking information.

The Group has established a policy to perform an assessment as at 31 December 2020 and 2019, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Group classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1	When the financial assets are first recognised, the Group recognised an allowance based on 12 months' ECL.
Stage 2	When the financial assets have shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs.
Stage 3	The financial assets considered credit-impaired. The Group records an allowance for the lifetime ECLs.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### **Credit risk** *(Continued)*

#### *Maximum exposure and year-end staging (Continued)*

Management also makes periodic collective assessments for the financial assets as well as individual assessment on the recoverability of the financial assets based on historical settlement records, past experience and other factors. The Group classified the financial assets into different stages by risk and continuously monitored their credit risk. Management believes that there is no material credit risk inherent in the Group's outstanding balances as at 31 December 2020 and 2019.

As at 31 December 2020 and 2019, all restricted cash and pledged deposits and cash and cash equivalents were deposited with creditworthy financial institutions without significant credit risk.

Save as disclosed in note 49 to the financial statements, the Group does not provide any guarantees which would expose the Group or the Company to credit risk. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from the financial assets are set out in notes 18, 26, 27 and 28 to the financial statements.

### **Liquidity risk**

In light of the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and the capital commitments of the Group of approximately HK\$22.8 billion (2019: HK\$21.4 billion) in aggregate (comprising the Group's capital commitments and the Group's share of the joint ventures' own capital commitments) as at 31 December 2020 as detailed in note 51 to the financial statements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, corporate bonds and notes payable, as well as the strict control over its receivables due in day to day business. In the opinion of the directors of the Company, new bank borrowings will be obtained to finance certain of the new construction projects and service concession arrangements, and certain of the above-mentioned capital commitments are expected to be fulfilled by the Group after 2020. Accordingly, the Group expects to have adequate sources of funding to finance the Group and manage its liquidity position. Further details of which are set out in note 2 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Liquidity risk *(Continued)*

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

	Within one year or on demand <i>HK\$'000</i>	In the second year <i>HK\$'000</i>	In the third to fifth years, inclusive <i>HK\$'000</i>	Beyond 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2020</b>					
Bank and other borrowings	8,430,417	11,949,150	19,887,227	13,514,083	53,780,877
Corporate bonds	8,034,559	572,862	9,841,901	3,996,660	22,445,982
Notes payable	146,352	2,507,762	–	–	2,654,114
Lease liabilities	114,008	139,787	112,274	62,510	428,579
Trade payables	26,421,706	–	–	–	26,421,706
Other liabilities	6,725,396	492,232	–	–	7,217,628
Due to non-controlling equity holders	5,832	–	–	–	5,832
Due to related parties	316,916	–	–	–	316,916
	<b>50,195,186</b>	<b>15,661,793</b>	<b>29,841,402</b>	<b>17,573,253</b>	<b>113,271,634</b>
<b>31 December 2019</b>					
Bank and other borrowings	10,422,187	5,110,179	17,811,014	9,658,308	43,001,688
Corporate bonds	2,527,863	7,234,462	9,202,188	2,095,776	21,060,289
Notes payable	848,048	138,069	2,365,833	–	3,351,950
Lease liabilities	129,779	142,670	175,169	82,781	530,399
Trade payables	26,892,990	–	–	–	26,892,990
Other liabilities	5,982,277	410,625	–	–	6,392,902
Due to non-controlling equity holders	106,562	–	–	–	106,562
Due to related parties	477,412	–	–	–	477,412
	<b>47,387,118</b>	<b>13,036,005</b>	<b>29,554,204</b>	<b>11,836,865</b>	<b>101,814,192</b>



# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may issue new shares to increase capital or sell assets to reduce debt. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

The Group monitors capital using the gearing ratio, which is calculated based on net debt and total equity. Net debt is calculated as total bank and other borrowings, corporate bonds, notes payable and lease liabilities (excluded those derived from operating leases) less cash and cash equivalents. Total equity includes equity attributable to shareholders of the Company, perpetual capital instruments and non-controlling interests. No changes were made in the calculation of gearing ratio during the years ended 31 December 2020 and 2019. The gearing ratios at 31 December 2020 and 2019 were as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Net debt	57,589,159	49,105,324
Total equity	57,124,005	46,531,176
Gearing ratio	101%	106%

## 55. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the equity investments designated at fair value through other comprehensive income and a financial asset at fair value through profit or loss as disclosed in notes 23 and 22 to the financial statements, respectively, all financial assets and liabilities of the Group as at 31 December 2020 and 2019 were financial assets at amortised cost, and financial liabilities at amortised cost, respectively.

## 56. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and re-presented to conform to the current year's presentation.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 57. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>ASSETS</b>		
Non-current assets:		
Property, plant and equipment	534	1,211
Investments in subsidiaries	15,778,860	10,771,717
Investments in joint ventures	1,281,390	1,281,390
Investments in associates	485,417	441,500
Prepayments, deposits and other receivables	105,775	105,775
Equity investments designated at fair value through other comprehensive income	1,026,698	1,053,438
<b>Total non-current assets</b>	<b>18,678,674</b>	<b>13,655,031</b>
Current assets:		
Trade receivables	2,848	2,688
Prepayments, deposits and other receivables	28,958,126	30,766,499
Cash and cash equivalents	409,018	462,139
<b>Total current assets</b>	<b>29,369,992</b>	<b>31,231,326</b>
<b>TOTAL ASSETS</b>	<b>48,048,666</b>	<b>44,886,357</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 57. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>EQUITY AND LIABILITIES</b>		
Equity:		
Issued capital	1,002,160	1,002,120
Perpetual capital instrument <i>(note)</i>	1,187,358	–
Reserves <i>(note)</i>	8,145,807	7,387,282
<b>TOTAL EQUITY</b>	<b>10,335,325</b>	<b>8,389,402</b>
Non-current liabilities:		
Bank and other borrowings	6,037,050	9,212,077
Corporate bonds	5,916,673	12,191,932
Other payables and accruals	15,551,780	7,182,599
Deferred tax liabilities	7,920	12,011
Total non-current liabilities	27,513,423	28,598,619
Current liabilities:		
Trade payables	–	353
Other payables and accruals	1,158,624	1,025,793
Bank and other borrowings	2,022,000	5,413,142
Corporate bonds	7,019,294	1,459,048
Total current liabilities	10,199,918	7,898,336
<b>TOTAL LIABILITIES</b>	<b>37,713,341</b>	<b>36,496,955</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>48,048,666</b>	<b>44,886,357</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 57. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

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

	Share premium account <i>HK\$'000</i>	Shares held under share award scheme <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i> <i>(a)</i>	Fair value reserve <i>HK\$'000</i>	Share option and share award reserve <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Perpetual capital instrument <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019	–	–	8,474,988	(18,391)	244,620	(3,149,529)	–	5,551,688
Profit for the year	–	–	–	–	–	1,296,541	–	1,296,541
Other comprehensive loss for the year:								
Changes in fair value of equity investments designated at fair value through other comprehensive income	–	–	–	(3,620)	–	–	–	(3,620)
Issue of shares	2,507,284	–	–	–	–	–	–	2,507,284
Shares purchased for share award scheme	–	(110,014)	–	–	–	–	–	(110,014)
Equity-settled share award arrangements	–	–	–	–	27,244	–	–	27,244
Exercise of share options	29,899	–	–	–	(8,869)	–	–	21,030
Final 2018 cash distributions paid	–	–	(830,945)	–	–	–	–	(830,945)
Interim 2019 cash distributions paid	–	–	(1,071,926)	–	–	–	–	(1,071,926)
At 31 December 2019 and 1 January 2020	2,537,183	(110,014)	6,572,117	(22,011)	262,995	(1,852,988)	–	7,387,282
Profit for the year	–	–	–	–	–	2,448,182	29,597	2,477,779
Other comprehensive loss for the year:								
Changes in fair value of equity investments designated at fair value through other comprehensive income	–	–	–	(26,742)	–	–	–	(26,742)
Issuance of a perpetual capital instrument	–	–	–	–	–	–	1,187,358	1,187,358
Shares purchased for share award scheme	–	(67,583)	–	–	–	–	–	(67,583)
Transfer of share award reserve upon forfeiture of share award	–	–	–	–	(1,317)	1,317	–	–
Equity-settled share award arrangements	–	–	–	–	27,244	–	–	27,244
Exercise of share options	1,189	–	–	–	(332)	–	–	857
Exercise of share awards	–	56,329	–	–	(53,171)	(3,158)	–	–
Distribution paid to holders of a perpetual capital instrument	–	–	–	–	–	–	(29,597)	(29,597)
Final 2019 cash distributions paid	–	–	(781,653)	–	–	–	–	(781,653)
Interim 2020 cash distributions paid	–	–	(841,780)	–	–	–	–	(841,780)
At 31 December 2020	2,538,372	(121,268)	4,948,684	(48,753)	235,419	593,353	1,187,358	9,333,165

(a) Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus account of the Company subject to the Company's Bye-laws, provided that the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## 58. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2021.

# FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2019, is set out below:

## RESULTS

	Year ended 31 December				
	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue	17,354,833	21,192,372	24,596,857	28,192,464	<b>25,360,587</b>
Operating profit	4,269,210	4,237,109	5,864,681	6,619,711	<b>5,428,737</b>
Share of profits and losses of:					
Joint ventures	192,172	521,629	454,565	551,395	<b>729,681</b>
Associates	182,373	556,578	459,664	384,986	<b>330,781</b>
Profit before tax	4,643,755	5,315,316	6,778,910	7,556,092	<b>6,489,199</b>
Income tax expense	(970,773)	(874,772)	(1,548,890)	(1,713,503)	<b>(1,248,658)</b>
Profit for the year	3,672,982	4,440,544	5,230,020	5,842,589	<b>5,240,541</b>
ATTRIBUTABLE TO:					
Shareholders of the Company	3,227,013	3,717,227	4,471,265	4,925,718	<b>4,183,466</b>
Holders of perpetual capital instruments	56,570	240,291	246,012	234,830	<b>232,180</b>
Non-controlling interests	389,399	483,026	512,743	682,041	<b>824,895</b>
	3,672,982	4,440,544	5,230,020	5,842,589	<b>5,240,541</b>

# FIVE-YEAR FINANCIAL SUMMARY

## ASSETS, LIABILITIES AND TOTAL EQUITY

	Year ended 31 December				
	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Total assets	81,047,270	100,461,072	126,380,708	151,160,926	<b>174,401,121</b>
Total liabilities	(54,279,930)	(67,419,749)	(88,568,571)	(104,629,750)	<b>(117,277,116)</b>
<b>NET ASSETS</b>	<b>26,767,340</b>	<b>33,041,323</b>	<b>37,812,137</b>	<b>46,531,176</b>	<b>57,124,005</b>
Equity attributable to shareholders of the Company	16,501,142	20,784,723	25,489,537	30,548,450	<b>37,343,812</b>
Perpetual capital instruments	6,305,025	6,623,082	6,350,900	6,250,999	<b>6,623,082</b>
Other non-controlling interests	3,961,173	5,633,518	5,971,700	9,731,727	<b>13,157,111</b>
<b>TOTAL EQUITY</b>	<b>26,767,340</b>	<b>33,041,323</b>	<b>37,812,137</b>	<b>46,531,176</b>	<b>57,124,005</b>





**北控水務集團有限公司**

BEIJING ENTERPRISES WATER GROUP LIMITED  
*(Incorporated in Bermuda with limited liability)*

**(Stock code: 371)**