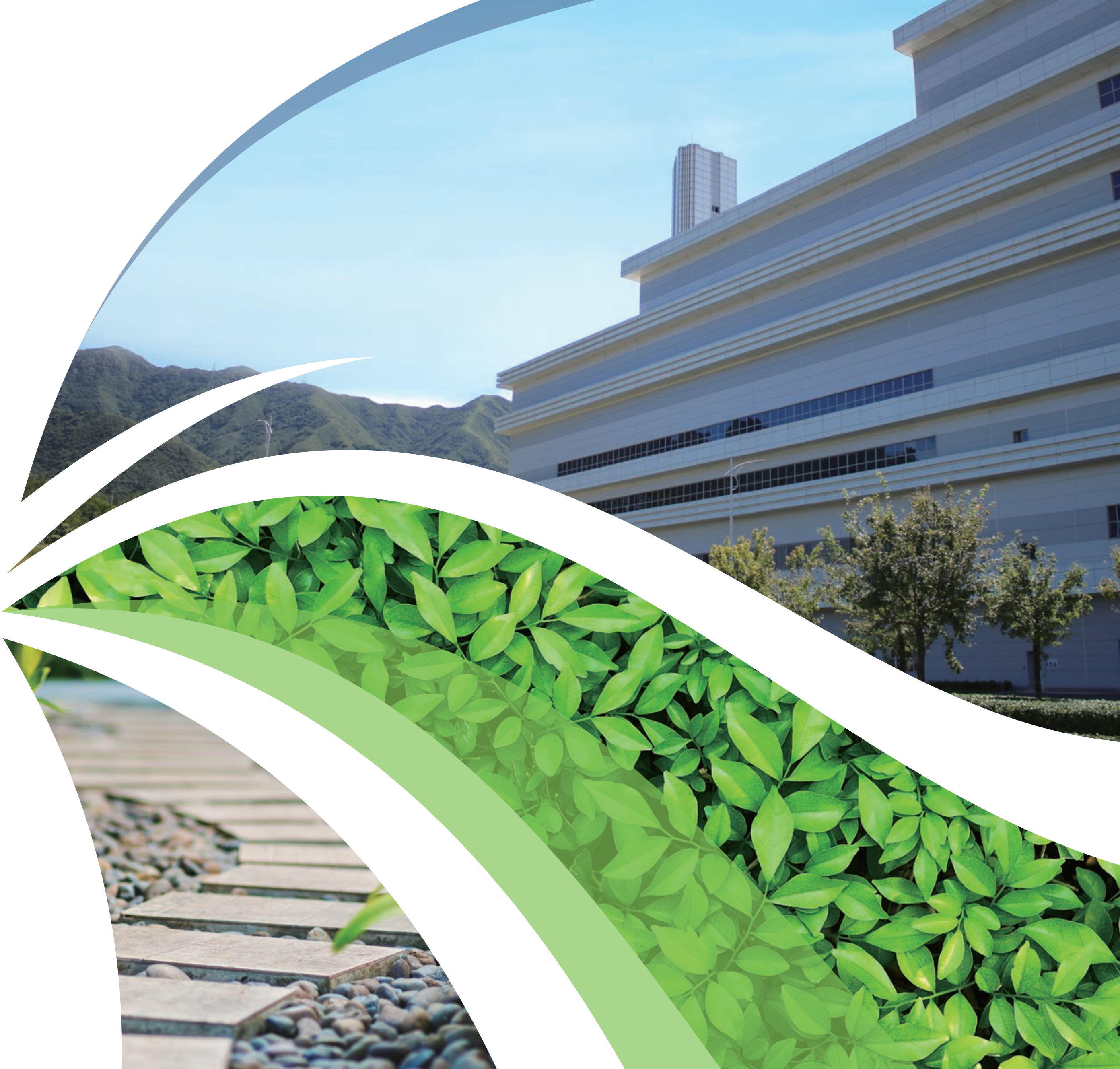
北京控股環境集團有限公司

BEIJING ENTERPRISES ENVIRONMENT GROUP LIMITED

(Stock Code 154)

2020
ANNUAL REPORT



CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Wong Kwok Wai, Robin

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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18 Harbour Road
Wanchai
Hong Kong

WEBSITE

http://www.beegl.com.hk

STOCK CODE

154

SHARE REGISTRARS

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

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

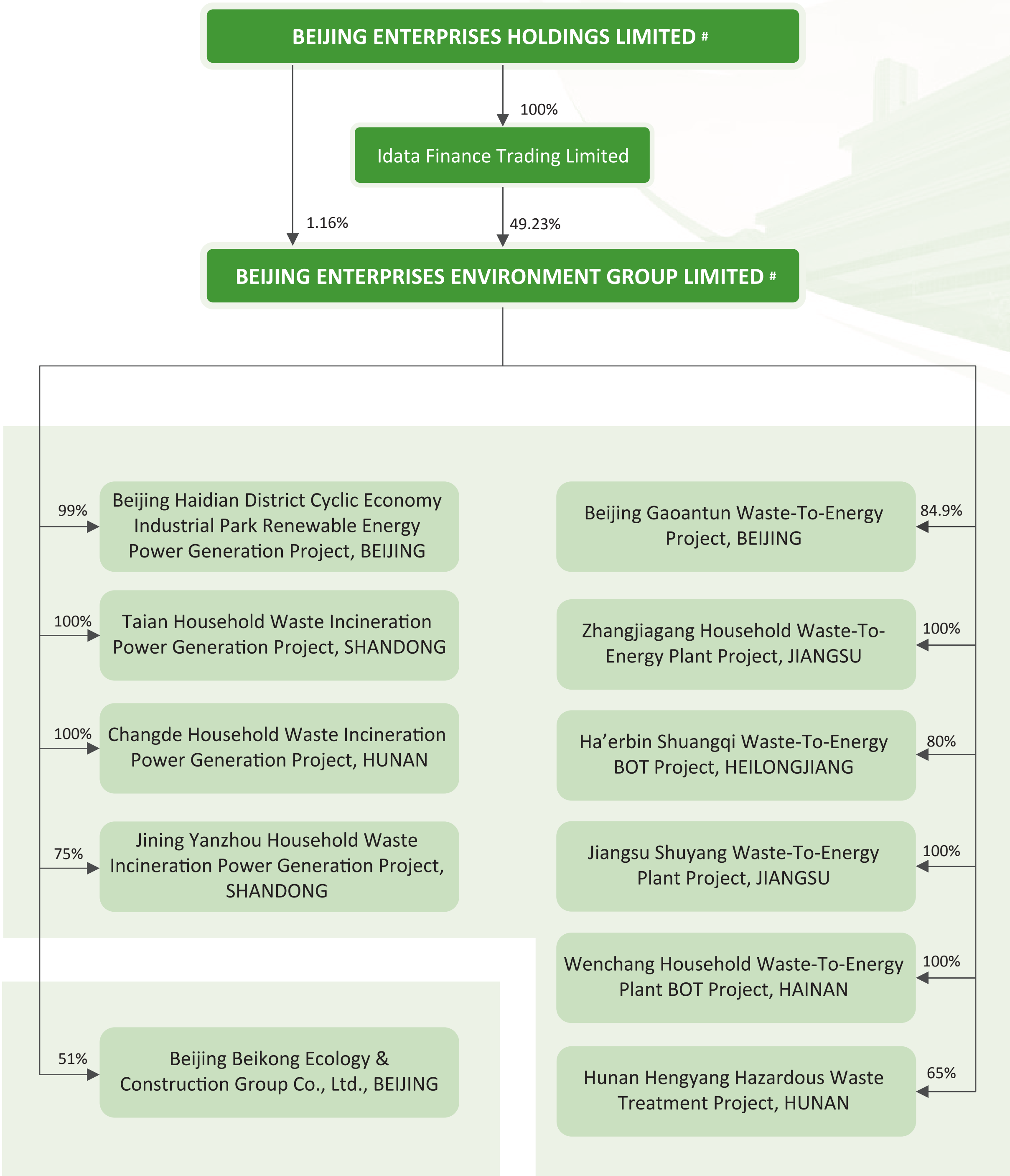
PRINCIPAL BANKERS

In Hong Kong:
Bank of China (Hong Kong)

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

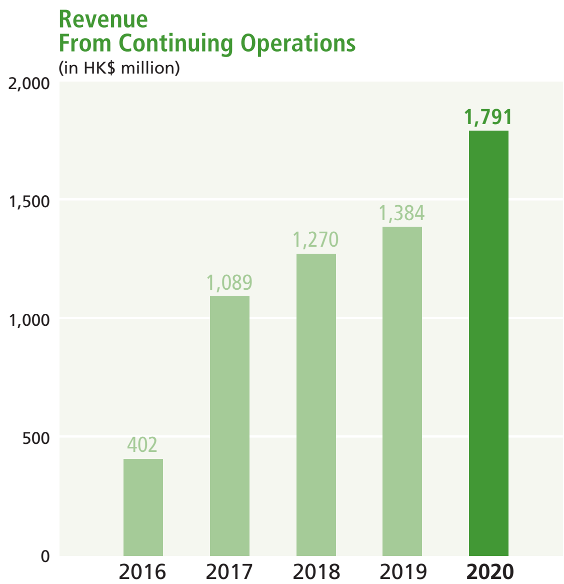
CORPORATE STRUCTURE

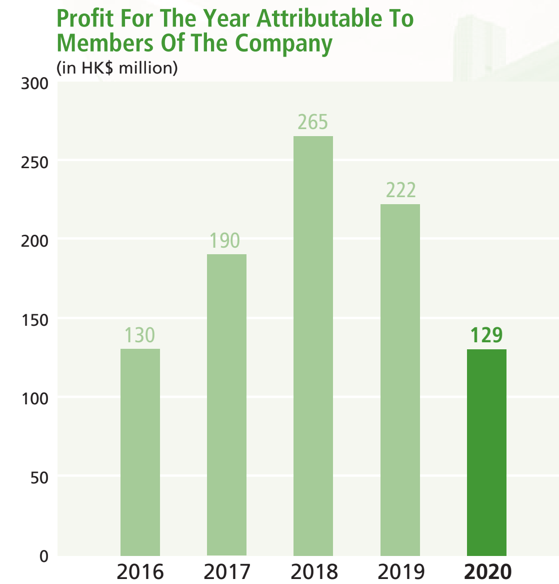
31 March 2021

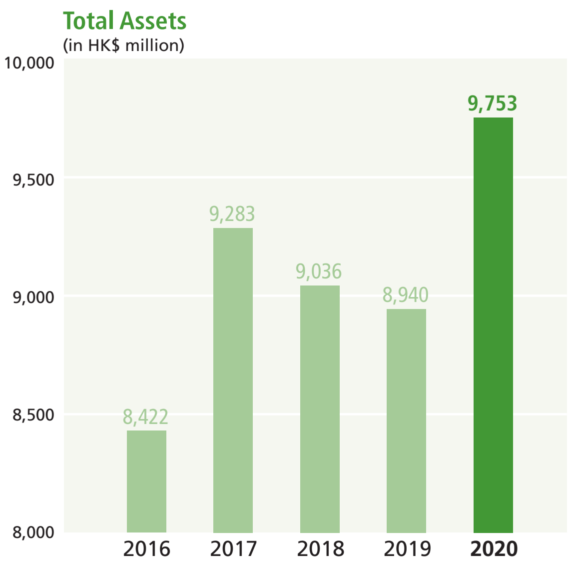


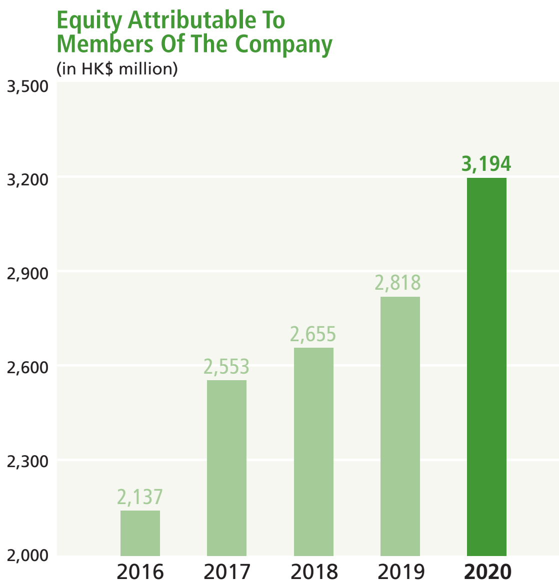
Listed on the Main Board of The Stock Exchange of Hong Kong Limited

FINANCIAL HIGHLIGHTS









CHAIRMAN'S STATEMENT

During the past year, the sudden COVID-19 epidemic outbreak, the waste sorting measures advocated at the national level and the official policy introduction on renewable energy tariff subsidy had brought unprecedented negative impacts on waste incineration power generation enterprises. The Group faced tremendous pressures on its operation under the extremely acute macro situation and policy challenge. To effectively respond to the various adverse factors, the Group conducted practical moves based on its actual production conditions, maintained and updated production equipment, improved and optimised production processes and perfected its technologies. It adopted various measures to effectively improve its production efficiency and minimise operating costs and charges to ensure stable production operation. In 2020, the revenue of the Group increased by 29% to HK$1.79 billion. Profit attributable to shareholders of the Company for the year decreased by 42% to HK$129 million due to the impairment of assets.

The solid waste treatment industry is entering a new stage of development and enterprises in the industry are putting more focus on high-quality development. Under the market environment with increasingly intensifying competition, the Company bravely encounters challenges, firmly seizes opportunities, steadily expands markets and proactively explores the development of new sectors in the solid waste segment.

Firstly, it continues to deepen and develop its waste incineration projects. By focusing on industrial policies and renewable energy subsidy policies, the Group goes for regions with better economic conditions and more friendly resources integration environment and expand its market size through addition, cooperation, acquisition and other measures. It also actively adopts integrated environmental sanitation, industrial parks with circular economy and other methods to incorporate sludge, kitchen waste, biomass and other new solid waste projects into its existing project portfolios.

Secondly, it strives to explore and develop emerging businesses. The Group improves its business diversification quality to achieve all-round business growth and focuses its study in trying to propel its projects on resources utilization and recycling of industrial solid/hazardous wastes. It pays close attention to waste sorting, organic waste treatment, soil restoration, landfill closure and other relevant projects, explores operable business models and fosters new profit drivers to improve enterprise profitability.

The Company will implement the concept of green development, firmly adhere to the strategic positioning of "becoming a domestic leading provider offering comprehensive services on environmental improvement" under the general background of national ecological civilization construction and promote high-quality, healthy, orderly and sustainable development of the Group that integrate with the "14th Five-year" national strategic development plans.

Ke Jian
Chairman

Hong Kong
31 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Solid Waste Treatment Segment

During the year under business review, the Group operated eight household waste incineration power generation projects with waste treatment capacity of 10,225 tonnes/day, and one hazardous and medical waste treatment project with waste treatment capacity of 35,000 tonnes/year. The Group has three household waste incineration power generation projects under construction, including two expansion projects and one new project with waste treatment capacity of 4,350 tonnes/day.

Project Name	Region	Business Model	Waste treatment capacity (tonnes/day)
Household waste incineration power generation projects:			
Haidian Project (北京市海澱區循環經濟產業園再生能源發電廠項目)	Beijing	BOT	2,100
Gaoantun Project (北京高安屯垃圾焚燒項目)	Beijing	BOT	1,600
Ha'erbin Project (哈爾濱雙琦垃圾焚燒發電項目)	Heilongjiang	BOT	1,600
Changde Project (常德市生活垃圾焚燒發電項目)	Hunan	BOT	1,400
Taian Project (泰安生活垃圾焚燒發電項目)	Shandong	BOO	1,200
Shuyang Project (江蘇省沭陽縣垃圾焚燒發電項目)	Jiangsu	BOT	1,200
Zhangjiagang Project (張家港市生活垃圾焚燒發電廠項目)	Jiangsu	BOO	900
Wenchang Project (文昌市生活垃圾焚燒發電廠項目)	Hainan	BOT	225
Changde Project (Phase III) (常德市生活垃圾焚燒發電項目(三期))#	Hunan	BOT	600
Zhangjiagang Jingmai Project (張家港市靜脈科技產業園生活垃圾焚燒發電項目)#	Jiangsu	BOT	2,250
Yanzhou Project (濟寧市兖州區生活垃圾焚燒發電項目)#	Shandong	BOT	1,500
Hazardous and medical waste treatment project:			
Hengxing Project (湖南省衡陽危險廢物處置中心項目)	Hunan	BOT	

Projects under construction

During the year under business review, owing to the continuous impact of the COVID-19 epidemic, together with the vigorous promotion of household waste sorting practice in various cities, the volume of household waste decreased. While strictly implementing measures to prevent and control the epidemic and ensure the stable operation of machinery units, the Group took various measures to broaden revenue from other businesses, which, to a certain extent, had reduced the adverse impact on revenue due to the shortage of household waste intake. In response to the problems of waste incineration in winter and the continuously making operating loss in prior years at the Ha'erbin Project, the Group was able to turn around from loss into profit during the year through technological improvements and improved operational and production management. During the year under business review, the Group had invested approximately HK$445 million in construction, expansion and technical renovation works for its projects, contributing additional revenue to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

In 2020, total household waste treatment volume of the Group was 3,300,000 tonnes (average 9,018 tonnes/day), decreased by 5.4% as compared with that of last year. Medical and hazardous waste treatment volume was 11,500 tonnes, 253,000 tonnes for food waste, 120,100 tonnes for sludge and 96,600 tonnes for leachate. In 2020, total electricity generating volume was 1,270,486 MWh, increased by 6.8% from that of last year. Total on-grid electricity volume was 1,037,713 MWh, increased by 6.3% as compared with that of last year. Steam supply volume was 65,600 tonnes, decreased by 67% as compared with that of last year.

According to the "Supplementary Notice on Matters in relation to the Opinions on Promoting the Healthy Development of Non-hydro Renewable Power Generation" (Caijian [2020] No.426)(《關於《關於促進非水可再生能源發電健康發展的若干意見》有關事項的補充通知》—財建[2020]426號)("Supplementary Notice") issued by Ministry of Finance, National Development and Reform Commission and National Energy Administration of the PRC on 29 September 2020, certain solid waste treatment projects of the Group will no longer entitle the renewable energy tariff subsidy after exceeding the specified life-cycle reasonable utilisation hours during the operation period, and this will affect the future operating cash flow of the Group's solid waste treatment segment. As a result, based on the Company's assessment of the impairment of the relevant assets in the solid waste treatment segment, a one-off impairment of HK$115 million was made to the Group's intangible assets. In addition, Shandong Taian project phased out two circulating fluidised bed waste incineration boilers and related ancillary facilities in response to the improvement of waste incineration process and provided a one-off asset impairment of HK$122 million. Excluding the above tax effect of the impairment of HK$60 million resulted in a reduction in the Group's profit for the year of HK$178 million.

During the year under business review, given the above effects, the revenue from the solid waste treatment segment was HK$1,380 million, up by 25% year-on-year, of which operating revenue was HK$1,044 million, down by 1% year-on-year, revenue from construction work was HK$336 million, up by 5.5 times year-on-year. EBITDA was HK$357 million, down by 22% year-on-year. The profit for the year was HK$132 million, down by 44% year-on-year.

Ecological Construction Segment

During the period under business review, owing to the impact of the COVID-19 epidemic and prevention and control efforts, Beijing Beikong Ecology & Construction Group Co., Ltd. ("Beikong Ecology") adjusted its business strategy in a timely manner to ensure the development of its traditional business, and also actively developed new market directions. In 2020, the Group successfully won new tenders and signed a total of 55 contracts, of which 18 were municipal landscape construction and maintenance projects, 1 municipal construction project, 35 landscape planning and design projects and 1 ecological restoration project. The total amount of new contracts signed was approximately RMB400 million. The ecological construction segment recorded a revenue of HK$411 million for the year, increased by 47% over last year, and profit for the year was HK$54 million, representing a significant increase of 86% over last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

BUSINESS PROSPECT

The Group is committed to strengthening our environmental management, improving the reliability of environmental protection standards, further enhancing the operation standard and ensuring the long-term stable operation of projects. The Group is actively responding to the situation of the drop in volume of household waste due to the gradual implementation of waste sorting practice in different regions. Coupled with our own strengths in different projects as well as the actual locality needs, we will consider increasing the synergistic disposal of sludge, general industrial solid waste, food waste sieves, digestate and leachate to increase the source of income and raise project revenue. Furthermore, the Changde Project (Phase III) and the Yanzhou Project will be successively put into trial operation in the second half of 2021, and preparation will be made for their production operations.

In addition, Beikong Ecology has established a foothold in the surrounding market of Beijing and developed the third-tier cities in the southwestern regions of China. It ensures the sustainability of the Company's traditional urban gardening and greening construction projects and strives for new businesses in ecological restoration and environmental governance and actively looks for new approach in terms of cooperation to guide market development and actively organises and participates in tender projects.

FINANCIAL REVIEW

Revenue and gross profit

During the year, the Group recorded revenue of HK$1,791 million, increased by 29% as compared with last year of HK$1,384 million. The revenue derived from the solid waste treatment and the sale of electricity and steam amounted to HK$1,044 million, decreased by 0.8% as compared with last year of HK$1,052 million. The revenue derived from the waste treatment construction and related services amounted to HK$336 million, substantially increased by 5.5 times as compared with last year of HK$52 million. The revenue derived from the ecological construction and related services amounted to HK$411 million, increased by 47% as compared with last year of HK$280 million.

The Group's gross profit amounted to HK$531 million, increased by 9% as compared with last year of HK$485 million. The overall gross profit margin decreased from 35% to 29.7%.

	Revenue		**Gross profit**		**Gross profit margin**	
	2020 ***HK$ million***	2019 *HK$ million*	**2020** ***HK$ million***	2019 *HK$ million*	**2020**	2019
Household waste treatment	**266**	273				
Other solid waste treatment	**153**	99				
Sale of electricity and steam	**625**	680				
	1,044	1,052	**369**	416	**35.3%**	39.5%
Waste treatment construction and related services	**336**	52	**59**	(1)	**17.6%**	–1.6%
Ecological construction and related services	**411**	280	**103**	70	**25.2%**	24.9%
	1,791	1,384	**531**	485	**29.7%**	35.0%

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Other income and gain, net

The Group recorded net other income and gain of HK$94 million during the year, remained steady as compared with last year of HK$95 million. The other income for the year mainly comprised value added tax refund from household waste treatment business of HK$66 million (2019: HK$50 million), interest income of HK$11 million (2019: HK$16 million) and foreign exchange gain of HK$7 million (2019: loss of HK$0.7 million). In addition, an insurance compensation income of HK$20 million from a household waste treatment plant was recorded in last year.

Selling expenses

The Group's selling expenses for the year, as incurred by the hazardous and medical waste treatment plant, remained steady at HK$2 million as compared with last year.

Administrative expenses

The Group's administrative expenses for the year increased by 13% or HK$18 million to HK$157 million, which was mainly due to the business expansion of both waste treatment construction and ecological construction services, additional administrative expenses of HK$8 million for each sector was incurred during the year.

Other operating expenses, net

The Group incurred net other operating expense of HK$241 million during the year, increased by HK$122 million as compared with last year. The other net operating expenses for the year mainly comprised the one-off impairment of assets of certain solid waste treatment projects in aggregate of HK$238 million (2019: HK$114 million) as a consequence of the change of the PRC renewable energy tariff subsidy policy, phase out certain retiring assets and optimising the assets quality of the Group.

Finance costs

The Group's finance cost for the year increased by 6% or HK$4 million to HK$76 million, which mainly comprised interest on bank loans of HK$11 million (2019: HK$11 million), interest on borrowings from 北京控股集團財務有限公司 ("BG Finance"), a fellow subsidiary of the Company, of HK$33 million (2019: HK$31 million) and imputed interest on convertible bonds issued to Idata Finance Trading Limited ("Idata"), the immediate holding company of the Company, of HK$30 million (2019: HK$29 million). Interest on bank and other borrowings of HK$1 million (2019: HK$3 million) incurred for the construction of solid waste treatment projects have been capitalised during the year.

Income tax

The Group's income tax credit for the year amounted to HK$6 million, comprising current tax expenses of HK$37 million and deferred tax credit of HK$43 million. The Group's income tax expenses for the last year amounted to HK$27 million, comprising current tax expenses of HK$38 million and deferred tax credit of HK$11 million. During the year, certain subsidiaries of the Group in Mainland China are (i) exempted from corporate income tax for three years starting from the first year they generate revenue and are granted by a 50% tax reduction for the ensuring three years; and (ii) qualified for the high-tech enterprises corporate income tax rate reduction.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

EBITDA and profit for the year

EBITDA for the year was HK$438 million, decreased by 11% or HK$56 million as compared with last year of HK$494 million. Profit for the year amounted to HK$155 million, decreased by 30% or HK$65 million as compared with last year of HK$220 million. Profit for the year attributable to members of the Company amounted to HK$129 million, decreased by 42% or HK$93 million as compared with last year of HK$222 million.

By excluding the one-of effect of impairment of assets of certain solid waste treatment projects made during the year, proforma EBITDA for the year was HK$675 million, increased by 11% or HK$67 million as compared with last year of HK$608 million. Proforma profit for the year amounted to HK$333 million, increased by 9% or HK$27 million as compared with last year of HK$306 million. Proforma profit for the year attributable to members of the Company amounted to HK$292 million, increased by 2% or HK$5 million as compared with last year of 297 million.

	EBITDA		**Profit for the year**		**Profit attributable to members of the Company**	
	2020 ***HK$ million***	2019 *HK$ million*	**2020** ***HK$ million***	2019 *HK$ million*	**2020** ***HK$ million***	2019 *HK$ million*
Solid waste treatment segment	**595**	571	**310**	322	**295**	327
Less: Impairment on assets	**(238)**	(114)	**(178)**	(86)	**(163)**	(75)
	357	457	**132**	236	**132**	252
Ecological construction segment	**77**	46	**54**	29	**28**	15
Corporate and others segment	**4**	(9)	**(31)**	(45)	**(31)**	(45)
	438	494	**155**	220	**129**	222

FINANCIAL POSITION

Significant investing and financing activities

The Group acquired 51% equity interest in Beikong Ecology in 2018 and has three years' guaranteed profits provided by the vendors as stipulated under the share purchase agreement. During the year ended 31 December 2020, Beikong Ecology recorded a net profit of approximately RMB47 million (equivalent to approximately HK$53 million) and the third year's guaranteed profit of RMB30 million has been fulfilled.

The Group established a joint venture to invest and construct the Yanzhou Project in January 2020 which is scheduled to be put into operation in 2022. The total estimated investment of the Yanzhou Project was approximately RMB808 million and the Group has 75% equity in the joint venture. As at 31 December 2020, the accumulated investment on the Yanzhou Project was amounted to approximately RMB200 million.

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

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Total assets and liabilities

As at 31 December 2020, the Group had total assets and total liabilities amounted to HK$9,753 million and HK$6,161 million, respectively, increased by HK$813 million and HK$332 million as compared with those as at 31 December 2019, respectively. Net assets of the Group was HK$3,592 million, increased by HK$481 million from the end of last year.

Property, plant and equipment

The Group's property, plant and equipment mainly comprised those incurred for the Shandong Taian Project and the Jiangsu Zhangjiagang Project which operated under Build-Own-Operate ("BOO") arrangements of HK$988 million (2019: HK$1,020 million). During the year, the net carrying amount of the Group's property, plant and equipment decreased by HK$26 million (2019: increased by HK$72 million) to HK$10.99 million, of which capital expenditure of HK$53 million (2019: HK$140 million) has been incurred, one-off impairment of HK$55 million has been made and HK$89 million (2019: HK$51 million) has been depreciated in the statement of profit or loss.

Investment property

The Group has an investment property situated in Beijing, the PRC for commercial use. As at 31 December 2020, its fair value was amounted to HK$49 million.

Goodwill

The Group acquired certain companies engaging in the solid waste treatment business in April 2014 and October 2016 and aggregate goodwill of HK$1,123 million arose from these acquisitions. The Company has appointed an independent professional valuer to assess the goodwill impairment testing as the end of the reporting period. The recoverable amount of the cash generating unit of the solid waste treatment business has been determined based on its value-in-use, which has been determined based on the future cash flows of the solid waste treatment business and discounted to the present values. The Company considered that the key assumptions adopted by the valuation were reasonably conservative and appropriate. As value-in-use value of the relevant cash generating units exceeded its aggregate carrying amount of the relevant assets, the Company is reasonably considered that no impairment provision is necessary for the Group's goodwill as at 31 December 2020.

Right-of-use assets

The Group has right-of-use assets amounted to HK$67 million, decreased by HK$10 million from the end of last year as one-off impairment of the Shandong Taian Project of HK$13 million has been made.

Operating concessions

The Group's operating concessions are recognised from the solid waste treatment plants operated under Build-Operate-Transfer ("BOT") arrangements. During the year, the net carrying amount of the Group's operating concessions increased by HK$307 million (2019: decreased by HK$281 million) to HK$2,439 million, of which construction expenditure of HK$406 million (2019: HK$54 million) has been incurred, one-off impairment of HK$115 million (2019: HK$114 million) has been made and HK$102 million (2019: HK$102 million) has been amortised in the statement of profit or loss.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Other intangible assets

The Group's other intangible assets mainly comprised the fair value of the operation right of the Jiangsu Zhangjiagang Project of HK$39 million and other licenses of HK$14 million. During the year, the net carrying amount of the Group's other intangible assets decreased by HK$57 million (2019: HK$7 million) to HK$56 million, of which one-off impairment of the operation right of the Shandong Taian Project of HK$55 million has been made and HK$6 million (2019: HK$6 million) has been amortised in the statement of profit or loss.

Receivables under service concession arrangements

The Group's receivables under service concession arrangements are recognised from the household waste treatment plants operated under BOT arrangements with guaranteed waste treatment revenue. During the year, the carrying amount of the Group's receivables under service concession arrangements increased by HK$198 million (2019: decreased by HK$80 million) to HK$2,234 million, of which the receivable recognised from the new Yanzhou Project amounted to HK$94 million.

Inventories

The Group's inventories increased by HK$4 million to HK$44 million from the end of last year, which mainly represented coal and consumables used for the solid waste treatment plants.

Trade and bills receivables

The Group's trade and bills receivable increased by HK$127 million to HK$516 million from the end of last year. According to the ageing analysis based on settlement due date, of which HK$333 million (65%) are current, HK$82 million (16%) are past due for less than 3 months and HK$24 million (5%) are past due for over 1 year.

Prepayments, other receivables and other assets

The Group's total prepayments, other receivables and other assets decreased by HK$19 million to HK$175 million from the end of last year, which mainly comprised prepayments of HK$99 million, value added tax refund and other taxes recoverable of HK$37 million, balances due from related parties of HK$12 million, deposits and other receivables of HK$27 million.

Bank and other borrowings

The Group's bank and other borrowings were all denominated in RMB. During the year, the Group repaid RMB84 million and further advanced for RMB89 million. As at 31 December 2020, the Group has bank and other borrowings amounted to RMB884 million, of which RMB241 million from commercial banks in Mainland China, RMB600 million from BG Finance and RMB43 million from other parties relating to the ecological construction business. The weighted average interest rate of the Group's bank and other borrowings was 4.6% per annum.

Convertible bonds

The Group's convertible bonds were issued to Idata with principal amount of HK$2,202 million in October 2016 and has share conversion price of HK$1.13, which are non-interest-bearing and will mature in October 2021. As at 31 December 2020, for accounting purpose, the outstanding convertible bonds were bifurcated into liability component of HK$2,177 million and equity component of HK$147 million.

Deferred income

The Group's deferred income increased by HK$1 million to HK$151 million from the end of last year, which mainly represented PRC government grants and subsidies on solid waste treatment business.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Trade payables

The Group's trade payables increased by HK$233 million to HK$761 million from the end of last year, 49% of which (HK$372 million) were unbilled. The increase was mainly due to the business expansion of both waste treatment construction and ecological construction services.

Other payables and accruals

The Group's total other payables and accruals increased by HK$36 million to HK$1,728 million from the end of last year, which mainly comprised an amount due to Idata of HK$491 million (2019: HK$491 million) and (ii) amounts due to fellow subsidiaries of HK$1,081 million (2019: HK$1,024 million), which are unsecured and non-interest-bearing.

Liquidity and financial resources

The Group adopts conservative treasury policies in cash management. As at 31 December 2020, the Group had cash and cash equivalents amounted to HK$1,520 million (approximately 73% of which were denominated in Renminbi and 27% of which were denominated in Hong Kong dollars and United States dollars); bank and other borrowings amounted to RMB884 million; non-interest-bearing amounts due to Idata and certain fellow subsidiaries of the Company amounted to HK$491 million and RMB907 million, respectively; and non-interest bearing convertible bonds issued to Idata in the principal amount of HK$2,202 million (which will mature in October 2021).

As at 31 December 2020, Beijing Enterprises Holdings Limited ("BEHL"), the intermediate holding company of the Company, and its subsidiaries have undertaken not to demand repayment of the amounts due by the Group to them of HK$2,693 million (including the principal amount of outstanding convertible bonds of HK$2,202 million) and RMB800 million, until such time when the Group is in a position to repay without impairing its liquidity and financial position.

As at 31 December 2020, the Group's current liabilities of HK$4,877 million exceeded its current assets of HK$2,730 million. In consideration of the stable cash recurring nature of solid waste treatment operations and the financial support of the holding company, the directors of the Company considered that the Group will be able to operate on a going concern basis and the Group has sufficient cash resources to finance its operations in the foreseeable future.

Key performance indicators

	2020	2019
Gross profit margin	**29.7%**	35.0%
Operating profit margin	**12.6%**	23.1%
Net profit margin	**8.7%**	15.9%
Return on average equity	**4.3%**	8.1%
Current ratio *(times)*	**0.56**	0.93
Debt ratio *(total liabilities/total assets)*	**63.2%**	65.2%
Net gearing ratio *(net debt/total equity)*	**47.6%**	55.2%

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Capital expenditure and commitment

During the year, the Group's total capital expenditures amounted to HK$460 million, of which HK$445 million was spent on construction and modification of waste treatment plants and HK$15 million was spent on purchase of other assets. As at 31 December 2020, the Group has capital commitment for service concession arrangements amounted to HK$1,038 million.

Charges on the Group's assets

As at 31 December 2020, save as (i) the Group's buildings with a net carrying amount of HK$283 million, the Group's right-of-use assets of HK$8 million and the Group's trade receivables arising from the provision of solid waste treatment service with a net carrying amount of HK$56 million are pledged for the Group's bank loans, and (ii) the Group's bank deposits of HK$7 million are pledged as security deposits to the government authorities and a customer for the provision of construction and related services of solid waste treatment plants, the Group did not have any charges on the Group's assets.

Foreign exchange exposure

The Group's businesses are principally located in Mainland China and the majority of its transactions are conducted in Renminbi. As the financial statements of the Group are presented in Hong Kong dollars, which is the Company's functional and presentation currency, any fluctuation of exchanges rates would impact the Group's net asset value. During the year, the gains arising on settlement or translation of monetary items of HK$7 million (2019: losses of HK$0.7 million) are taken to the statement of profit or loss and the comprehensive gains arising on translation of foreign operations of HK$248 million (2019: losses of HK$60 million) are recognised in the exchange fluctuation reserve. Currently, the Group has not used derivative financial instruments to hedge against its foreign currency risk.

Contingent liabilities

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

Save as disclosed above, as at 31 December 2020, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 1,273 employees (2019: 1,246). Total staff cost for the year was HK$223 million, decreased by 5% as compared with HK$235 million in last year. The Group's remuneration policy and package are periodically reviewed and generally structured by reference to market terms and individual performance. Discretionary bonuses are awarded to certain employees according to the assessment of individual performance.

No share option was granted, exercised or forfeited during the year. The Company has 37,620,000 share options outstanding as at 31 December 2020, which were granted on 21 June 2011 at an exercise price of HK$1.25 per share and represented approximately 2.5% of the Company's ordinary shares in issue as at 31 December 2020.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. KE Jian, aged 52, is the chairman and the chief executive officer of the Company and also serves as a vice president of Beijing Enterprises Holdings Limited ("BEHL", stock code: 392) and an executive director of Beijing Enterprises Water Group Limited ("BE Water Group", stock code: 371). Mr. Ke is a PRC Senior Accountant, Certified Tax Agent and Senior International Finance Manager. Mr. Ke obtained a bachelor's degree in economics from Beijing College of Finance and Commerce and an MBA degree from Murdoch University, Australia. Mr. Ke joined BEHL since 1997 and has extensive experience in finance and corporate management. Mr. Ke joined the Group in August 2013.

Ms. SHA Ning, aged 50, is a vice president of the Company and also serves as a vice president of BEHL and an executive director of BE Water Group. 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 has been granted the title of PRC Chief Senior Accountant. Ms. Sha joined BEHL since 2001 and has extensive experience in financial management. Ms. Sha joined the Group in March 2009.

Mr. NG Kong Fat, Brian, aged 65, graduated from the University of Stirling in Scotland in 1983 and is a member of the Institute of Chartered Accountants of Scotland. Mr. Ng also served as an independent non-executive director of OneForce Holdings Limited (stock code: 1933). Mr. Ng has extensive experience in corporate, investment and financial management. Mr. Ng joined the Group in July 1993.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. JIN Lizuo, aged 63, obtained a bachelor's degree in economics from Peking University in 1982 and a doctoral degree in economics from Oxford University in 1993. Dr. Jin has served as a member of State Economic Structure Reforms Committee, the chief councillor of Shanghai Institute of Law & Economics and was the founding president (1988-89) of Chinese Economic Association (UK). Dr. Jin served as the chairman of Beijing Integrity Investment Consulting Ltd. from 1995 to 1999, the chairman of Beijing Integrity Management Consulting Ltd. from 1999 to 2004 and 2016 to 2018, a director of NetBrian Technologies Inc. since 2012. Dr. Jin is currently a supervisor of China International Capital Corporation Limited (stock code: 3908) and an independent non-executive director of Dadi International Group Limited (stock code: 8130). Dr. Jin joined the Group in September 2004.

Dr. HUAN Guocang, aged 71, is the chief executive officer and one of the founding Partners of GCS Capital. Dr. Huan received a PhD degree from Princeton University and holds two Master of Arts degrees from Columbia University and the University of Denver, respectively. He held the position of Post-Doctoral Fellow at the Center for international and Strategic Studies, Harvard University and pursued a graduate studies program at the Graduate School of Chinese Academy of Social Sciences in Beijing. Prior to founding GCS Capital, Dr. Huan was the chairman and a founding member of Primus Pacific Partners, the Head of Asia-Pacific Investment Banking at HSBC, Co-Head of Asia-Pacific Investment Banking at Citigroup Global Markets Inc., Managing Director and Head of China at BZW Asia and a Senior Economist at JP Morgan Asia. Dr. Huan joined the Group in January 2008.

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

Dr. WANG Jianping, aged 63, is currently a senior partner of King & Wood Mallesons, a law firm in China. Dr. Wang holds a bachelor degree in law from the Law School of Peking University in 1982, a master degree in law from the Law School of Harvard University in 1984 and a doctorate degree in law from the Law School of Washington University in Missouri in 1991. Before being admitted as a Chinese lawyer and joining King & Wood Mallesons in 1998, Dr. Wang was further admitted to the Missouri Bar in 1991 and then practiced in St. Louis, Missouri from 1991 to 1997. From 1984 to 1988, Dr. Wang worked with the Legislative Affairs Committee of the Standing Committee of National People's Congress and has participated in the legislation of the Grassland Law, Fishery Law, Bankruptcy Law, Law of Chinese-foreign Cooperative Joint Venture, and Customs Law, etc. Dr. Wang joined the Group in January 2008.

Prof. NIE Yongfeng, aged 75, is a professor at School of Environment, Tsinghua University, a doctoral supervisor for a doctoral program in Radiation Protection and Environment Protection, and a doctoral supervisor for Environmental Science and Engineering. He retired in April 2011, and is currently the deputy director of the Academic Committee of the Ministry of Education Key Laboratory for "Solid Waste Management and Environment Safety", Tsinghua University, a member of each of the Science and Technology Committee, the Municipal Work Committee, and the Resources and Sustainable Development Committee, Ministry of Housing and Urban-Rural Development, a member of the Expert Committee, the China Association of Urban Environmental Sanitation, a member of the Urban Garbage Treatment Professional Committee, the China Association of Environmental Protection Industry. Prof. Nie has solid theoretical foundation and extensive practical experience in urban domestic garbage, industrial solid waste and dangerous waste management, treatment, disposal and resource utilisation technology, and groundwater remediation theory and technology. Prof. Nie joined the Group in January 2014.

Mr. CHEUNG Ming, aged 60, is the vice chairman of a mineral company in Hong Kong. From 2013 to 2017, Mr. Cheung had served as an executive director and the chief executive officer of BEP International Holdings Limited ("BEP", stock code: 2326, renamed as New Provenance Everlasting Holdings Limited). Prior to joining BEP, he had served as the executive director of Hengli & Liqi Furniture Limited ("Hengli"), a Hong Kong company specialising in the production of furniture for sale to Europe markets, and was responsible for the international business development of Hengli. Before joining Hengli, Mr. Cheung had served as the chief executive officer of a Hong Kong based retailing company. Mr. Cheung has extensive business management experience including over 30 years of experience in retail business and international trade in Mainland China, Hong Kong and Taiwan. Mr. Cheung had been leading the companies he served in setting down long-term development blueprints including strategies for corporate and business development as well as brand building to enhance their market competitiveness and profitability, which laid the solid foundation for their sustainable growth in the Greater China and Asia-Pacific regions. Mr. Cheung joined the Group in August 2014.

SENIOR MANAGEMENT

Mr. ZHU Jian, aged 51, is a vice president of the Company. Mr. Zhu graduated from the Foreign Languages Department of Wuhan University of Technology in 1991 and subsequently obtained an MBA degree from the Faculty of Management, Wuhan university of Technology. Mr. Zhu has extensive working experience in corporate management and in the field of environmental protection. Mr. Zhu joined the Group in August 2014.

Mr. WONG Kwok Wai, Robin, aged 54, is the financial controller and the company secretary of the Company. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has been worked for a major international accounting firm and has extensive experience in administration, auditing, accounting and corporate finance. Mr. Wong joined the Group in July 1993.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, the Company has complied with all the applicable code provisions (the "Code Provisions") of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2020.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by director(s) of the Company (the "Director(s)"). All Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2020.

BOARD OF DIRECTORS

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

The Board has adopted a board diversity policy. With the aim of enhancing Board effectiveness and corporate governance level as well as achieving our Group's business objectives, the Company sees increasing diversity at the Board level as an essential element in supporting its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, and any other factors that the Board may consider relevant and applicable from time to time. All Board appointments will be based on merit, and candidates will be considered against objective criteria, having due regard to the benefits of Board diversity.

During the reporting period, the Company has a solid slate of Directors with diverse perspectives, and varied educational background and professional qualifications. All of the Directors have accumulated experience in their respective field of expertise, and made use of their talent and experience to drive the industry so as to bring sustainable growth to the Company.

The Board currently comprises three executive Directors and five independent non-executive Directors. Details of backgrounds and qualifications of Directors are set out on pages 15 and 16. There is no relationship (including financial, business, family or other material/relevant relationship) between the Board members. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD OF DIRECTORS *(CONTINUED)*

During the year ended 31 December 2020, the Board has complied with Rules 3.10(1) and (2) of the Listing Rules which comprises three independent non-executive Directors, and has two independent non-executive Directors with appropriate financial management expertise. The independent non-executive Directors have appropriate and sufficient experience and qualification to carry out their duties so as to fully represent the interests of the shareholders. The Company has received annual confirmations of independence from each of the independent non-executive Directors and still considers them to be independent.

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

According to the records maintained by the Company, the Directors received the training on disclosure requirements and principal directors' responsibilities under the Listing Rules in compliance with the Code Provisions on continuous professional development during the year ended 31 December 2020:

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

* Resigned on 3 January 2020

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD OF DIRECTORS *(CONTINUED)*

The Board held two regular meetings during the year ended 31 December 2020. Details of attendance of each Director at the regular Board meetings and general meetings are as follows:

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

* Resigned on 3 January 2020

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

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

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

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

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

CHAIRMAN AND PRESIDENT

Mr. Ke Jian assumes the positions of Chairman of the Board and Chief Executive Officer. This arrangement deviates from Code Provision A.2.1 which recommends that the roles of chairman and chief executive should be separate and should not be performed by the same individual. However, the Company considers that such arrangement can bring benefits to the Company's business development and management at present, and will not impair the balance of power and authority between the Board and the management of the Company.

NON-EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

BOARD COMMITTEES

Remuneration Committee

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

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD COMMITTEES *(CONTINUED)*

Remuneration Committee *(continued)*

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

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

Nomination Committee

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

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

The Nomination Committee has adopted a nomination policy which sets out the following criteria and procedures for nomination of Directors:

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD COMMITTEES *(CONTINUED)*

Nomination Committee *(continued)*

Nomination Criteria

In determining the suitability of a candidate, the Nomination Committee shall consider the potential contributions a candidate can bring to the Board in terms of qualifications, skills, experience, independence, age, culture, ethnicity and gender diversity. The Nomination Committee shall consider a number of factors in making nominations, including but not limited to the following:

(a) Skills and Experience: The candidate should possess the skills, knowledge and experience which are relevant to the business of the Group.

(b) Diversity: Candidates should be considered on merit and against objective criteria, with due regard to the diversity perspectives set out in the Board Diversity Policy of the Company and the balance of skills and experience in board composition.

(c) Availability: The candidate shall be willing to devote adequate time for discharging the duties of a member of the Board and other director position.

(d) Character and integrity: The candidate must satisfy the Board and The Stock Exchange of Hong Kong Limited that he/she is a person of integrity and honesty, and has the character, experience and integrity commensurate with the relevant position as a Director.

(e) Independence: The candidate to be nominated as an Independent Non-executive Director must satisfy the independence criteria set out in Rule 3.13 of the Listing Rules.

Nomination Procedures

(a) If the Board determines that an additional or replacement Director is required, the Nomination Committee may take such measures that it considers appropriate in connection with its identification and evaluation of a candidate

(b) The Nomination Committee may propose to the Board a candidate recommended or offered for nomination by a Shareholder as a nominee for election to the Board.

(c) Upon considering a candidate suitable for the position of Director, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment.

(d) On making recommendation, the Nomination Committee may submit the candidate's personal profile to the Board for consideration. The Board may appoint the candidate as Director to fill a casual vacancy or as an addition to the Board or recommend such candidate to Shareholders for election or re-election (where appropriate) at the general meeting.

No meeting was held by the Nomination Committee during the year under review and no appointment of new director was proposed during the year.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD COMMITTEES *(CONTINUED)*

Audit Committee

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

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

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

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

AUDITORS' REMUNERATION

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

	HK$'000
Annual audit services	2,860
Non-audit services (which included agreed-upon procedures on interim financial statements, review of continuing connected transactions and preliminary announcement of annual results, tax compliance and due diligence services)	1,083
	3,943

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for preparing the accounts and the responsibilities of the auditor to the shareholders are set out on pages 38 to 40. The Directors have confirmed that the Group's financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

RISK MANAGEMENT AND INTERNAL CONTROL

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

An internal audit department has been established in accordance with Code Provision C.2.5. It has conducted regular review regarding internal control systems of the Company and its subsidiaries and any material defects have been resolved.

COMPANY SECRETARY

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

SHAREHOLDERS' RIGHTS

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

Shareholders' Right to Convene Extraordinary General Meeting

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

Shareholders' Right to Put Enquiries to the Board

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

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

Shareholders' Right to Put Forward Proposals at General Meetings

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

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

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

DIVIDEND POLICY

The Company aims at providing stable and sustainable returns to Shareholders. In deciding whether to propose a dividend and in determining an appropriate basis and method for dividend distribution, the Board will take into account, inter alia, the reasonable return in investment of the investors and the Shareholders, the actual and expected financial conditions, business plans, future operations and earnings, capital requirements and expenditure plans of the Company, any restrictions on payment of dividends that may be imposed by the Company's lenders, the general market sentiment and circumstances and any other factors the Board deems appropriate.

REPORT OF THE DIRECTORS

The directors (the "Directors") of Beijing Enterprises Environment Group Limited (the "Company") present their report and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group, an indication of likely future development in the Group's business and key performance indicators of the Company's business can be found in the Management Discussion and Analysis set out on pages 6 to 14 of this annual report. This discussion forms part of this directors' report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2020 and the Group's financial position at that date are set out in the financial statements on pages 41 to 133.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 134. This summary does not form part of the audited financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

There were no movements in the Company's share capital and share options during the year. Details of the convertible bond agreements entered into during the year or subsisting at the end of the year are set out in note 27 to the financial statements. Details of the share option scheme are included in the section "Share Option Scheme" below.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

At 31 December 2020, the Company had no reserves available for distribution, calculated in accordance with the provisions of sections 291, 297 and 299 of the Hong Kong Companies Ordinance.

REPORT OF THE DIRECTORS *(CONTINUED)*

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 33% of the total sales for the year and sales to the largest customer included therein amounted to 12%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

DIRECTORS

The Directors during the year were:

Executive Directors:
Mr. Ke Jian
Ms. Sha Ning
Mr. Ng Kong Fat, Brian
Mr. E Meng *(Resigned on 3 January 2020)*

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

The persons who were directors of the subsidiaries of the Company during the year (not including those directors listed above) were (in alphabetical order of surname) Messrs. Bu Yaming, Chen Gang, Chen Zhaojun, Du Hao, Du Qingjiang, Du Yan, Feng Hailian, Gong Xiaoqing, Guan Yinfeng, Guo Wei, Han Yunyi, Hu Fang, Jiang Chao, Jiang Zhanlin, Jin Fuqing, Li Xiaoyun, Liang Qiping, Liu Kang, Ng Kwong Fung, Ouyang Yuewen, Pan Kerong, Qin Xuemin, Qiu Song, Ren Shicheng, Shao Qing, Shi Yongliang, Thio Seng Tji, Tung Woon Cheung Eric, Wang Bingsheng, Wang Yong, Wong Kwok Wai, Xiong Lei, Yang Lanhua, Yang Zhen, Yu Ronghua, Zhang Hengli, Zhang Kun, Zhang Jing, Zhang Zhiwu and Zhu Jian.

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

Since the date of the Company's 2020 interim report and up to the date of this annual report, there has been no material change in the Directors' information that is required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

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

REPORT OF THE DIRECTORS *(CONTINUED)*

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 15 and 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to Directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's remuneration committee are set out in the corporate governance report on page 21 of the annual report.

PERMITTED INDEMNITY PROVISIONS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as the transactions with its fellow subsidiaries, further details of which are set out in note 39 to the financial statements, no Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year.

REPORT OF THE DIRECTORS *(CONTINUED)*

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

At 31 December 2020, the interests and short positions of the Directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

	Number of ordinary shares held, capacity and nature of interest			
Name of Director	**Directly beneficially owned**	**Through a controlled corporation**	**Total**	**Percentage of the Company's share capital**
Mr. Ng Kong Fat, Brian	1,600,000	8,792,755#	10,392,755	0.69

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

Long positions in share options of the Company:

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

Save as disclosed above, as at 31 December 2020, none of the Directors and chief executive of the Company had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was 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.

REPORT OF THE DIRECTORS *(CONTINUED)*

SHARE OPTION SCHEME

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

There were no movements in the Company's share options outstanding during the year and the following table disclosed the Company's share options outstanding as at 31 December 2020:

Name or category of participant	Number of share options
Executive Director:	
Mr. Ng Kong Fat, Brian	5,500,000
Independent non-executive Directors:	
Dr. Jin Lizuo	670,000
Dr. Huan Guocang	670,000
Dr. Wang Jianping	670,000
Others:	
In aggregate	30,110,000
	37,620,000

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

As at 31 December 2020, the Company had 37,620,000 share options outstanding under the Scheme. Should they be fully exercised, the Company will receive HK$47,025,000 (before issue expenses). The fair value of these unexercised options measured in accordance with the Group's accounting policy (note 2.4 to the financial statements) amounted to HK$20,789,000.

Subsequent to the end of the reporting period, 6,770,000 share options were forfeited on 3 January 2021 upon the expiry of the 12-month post-retirement exercisable period of a former executive Director.

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

REPORT OF THE DIRECTORS *(CONTINUED)*

CONTRACT OF SIGNIFICANCE

Save as the transactions with its fellow subsidiaries, further details of which are set out in note 39 to the financial statements, no contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

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

At 31 December 2020, the following interests and short positions of 5% or more of the share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in ordinary shares of the Company:

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

Notes:

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

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

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

Save as disclosed above, as at 31 December 2020, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

REPORT OF THE DIRECTORS *(CONTINUED)*

ENVIRONMENTAL POLICIES AND PERFORMANCE

During the year under review, the Group has invested in nine household waste incineration plants and one hazardous and medical waste treatment plant in the PRC. The household waste handled amounted to 3.3 million tonnes and on-grid electricity amounted to 1.038 billion kWh. The Group continues to make every effort to ensure the emission and discharge standards and environment protection performance of the plants under construction and expansion and in operation.

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

RELATIONSHIP WITH STAKEHOLDERS

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

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

REPORT OF THE DIRECTORS *(CONTINUED)*

CONTINUING CONNECTED TRANSACTIONS

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

(a) On 27 December 2017, the Company entered into a deposit services master agreement with Beijing Enterprises Group Finance Co., Ltd. ("BG Finance", a non-wholly-owned subsidiary of BEGCL), pursuant to which the Group may, in its ordinary and usual course of business, place and maintain deposits with BG Finance on normal commercial terms from time to time for three years from 1 January 2018 to 31 December 2020. The deposit interest rate will not be lower than (i) the benchmark interest rate prescribed by the People's Bank of China; (ii) the interest rates offered by commercial banks in Hong Kong and the PRC to the Group; and (iii) the interest rates offered by BG Finance to other members of BEGCL for the same type of deposits at the same period; and the cumulative daily outstanding deposits balance (in Hong Kong dollars equivalent) placed by the Group with BG Finance (including any interest accrued thereon) during the term of the deposit services master agreement will not exceed HK$73,800,000.

On 23 December 2020, the Company and BG Finance have extended the deposit services master agreement for a further term of three years from 1 January 2021 to 31 December 2023. The cumulative daily outstanding deposits balance (in Hong Kong dollars equivalent) placed by the Group with BG Finance (including any interest accrued thereon) during the renewed term will not exceed HK$40,000,000. Further details of the transactions are set out in the announcements of the Company dated 27 December 2017 and 23 December 2020 and note 39(a)(ii) to the financial statements. During the year ended 31 December 2020, the Group's interest income from BG Finance recognised in profit and loss amounted to HK$244,000.

(b) On 25 October 2018, the Company entered into a property escrow agreement with 北京北控宏創科技有限公司 ("Hong Chuang", an indirect wholly-owned subsidiary of BEHL), pursuant to which Hong Chuang will provide the escrow services for sub-leasing the Company's investment property known as Block 5 of Beikong Hong Chuang Technology Park in Beijing, the PRC for an escrow period of three years from 1 September 2018 to 31 August 2021 and at an annual rent of RMB2,575,987 (subject to annual adjustment, if necessary). Further details of the transaction are set out in the announcement of the Company dated 25 October 2018 and notes 13 and 39(a)(i) to the financial statements. During the year ended 31 December 2020, the Group's rental income from Hong Chuang recognised in profit and loss amounted to HK$2,894,000.

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

REPORT OF THE DIRECTORS *(CONTINUED)*

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Ernst & Young, the Company's auditor, were engaged to report on the Group's continuing connected transactions 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 Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, Mr. Ke Jian and Ms. Sha Ning are vice presidents of BEHL, which is also involved in the solid waste treatment business. Mr. Ke Jian and Ms. Sha Ning are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

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

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

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

(c) independent management team; and

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

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

REPORT OF THE DIRECTORS *(CONTINUED)*

AUDITOR

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

ON BEHALF OF THE BOARD

Ke Jian
Chairman

Hong Kong
31 March 2021

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Beijing Enterprises Environment Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 41 to 133, 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 Hong Kong Companies Ordinance.

BASIS OF OPINION

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

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of non-financial assets (other than inventories, deferred tax assets and investment properties) of the solid waste treatment segment	
As at 31 December 2020, non-financial assets (other than inventories, deferred tax assets and investment properties) of the solid waste treatment segment of the Group represent property, plant and equipment of HK$1,072,992,000, right-of-use assets of HK$35,316,000, goodwill of HK$1,122,551,000, operating concessions of HK$2,439,053,000, and other intangible assets of HK$54,804,000. Management tests goodwill annually for impairment. Other non-financial assets are assessed annually for any indication of impairment and if such an indication exists, management conducts an impairment assessment. The recoverable amounts of the non-financial assets of the solid waste treatment segment (other than goodwill) were determined based on the respective values in use of each project, which were determined based on the future cash flows of the respective cash-generating units and discounted to the present values. The recoverable amount of goodwill of the solid waste treatment segment were determined based on the value in use of the segment, which were determined based on the future cash flows of the cash-generating units of the segment and discounted to the present values. The assumptions and methodologies used by the Group, including the waste treatment fee received, selling prices and sales volumes of electricity, compensations to be received for relevant assets, operating costs, capital expenditures, growth rates and discount rates, in the projected cash flows had significant effects on the determination of the recoverable amounts of the non-financial assets of the solid waste treatment segment. Based on the result of the assessment, the Group had recognised impairment losses of HK$54,549,000, HK$12,725,000, HK$115,169,000, and HK$55,123,000 for the year ended 31 December 2020, allocating to the carrying amounts of property, plant and equipment, right-of-use assets, operating concessions, and other intangible assets, respectively. We identified the impairment assessment of non-financial assets of the solid waste treatment segment as a key audit matter because of the significant balances and the significant management judgement and estimation involved. Related disclosures are included in notes 3, 12, 14, 15, 16 and 17 to the financial statements.	We involved our internal valuation specialists to assist us in evaluating the valuation models, assumptions and parameters used by the Group, giving particular attention to the estimated future revenues and results. Our procedures included testing the assumptions used in the cash flow forecast, verifying the compensations associated with relevant assets, assessing the accuracy of previous forecasts by comparing them with the current performance, and evaluating the growth and trading assumptions. We then assessed the disclosures on the impairment testing, specifically the key assumptions that had the most significant effect on the determination of the recoverable amounts of the non-financial assets of the solid waste treatment segment, such as the discount rates and growth rates.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

31 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	**2020 HK$'000**	2019 HK$'000
REVENUE	5	**1,790,611**	1,384,113
Cost of sales		**(1,259,141)**	(899,488)
Gross profit		**531,470**	484,625
Other income and gain, net	5	**94,192**	94,882
Selling and distribution expenses		**(2,373)**	(2,321)
Administrative expenses		**(157,131)**	(139,034)
Other operating expenses, net		**(241,016)**	(118,984)
PROFIT FROM OPERATING ACTIVITIES	6	**225,142**	319,168
Finance costs	7	**(75,805)**	(72,363)
PROFIT BEFORE TAX		**149,337**	246,805
Income tax	10	**6,048**	(26,554)
PROFIT FOR THE YEAR		**155,385**	220,251
ATTRIBUTABLE TO:			
Members of the Company		**129,027**	222,232
Non-controlling interests		**26,358**	(1,981)
		155,385	220,251
EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF THE COMPANY	11		
– Basic (HK cents)		**8.60**	14.81
– Diluted (HK cents)		**4.61**	7.30

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 **HK$'000**	2019 HK$'000
PROFIT FOR THE YEAR	**155,385**	220,251
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		
Items that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**269,934**	(64,565)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**425,319**	155,686
ATTRIBUTABLE TO:		
Members of the Company	**376,785**	162,276
Non-controlling interests	**48,534**	(6,590)
	425,319	155,686

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	**2020 HK$'000**	2019 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	12	**1,099,326**	1,125,398
Investment property	13	**48,571**	47,191
Right-of-use assets	14	**66,521**	76,327
Goodwill	15	**1,122,551**	1,122,551
Operating concessions	16	**2,439,053**	2,132,275
Other intangible assets	17	**55,568**	112,877
Investment in a joint venture	18	**6,652**	6,652
Receivables under service concession arrangements	16	**2,165,794**	1,972,804
Prepayments, other receivables and other assets	22	**185**	30,895
Deferred tax assets	31	**18,307**	7,684
Total non-current assets		**7,022,528**	6,634,654
Current assets:			
Inventories	19	**43,842**	39,668
Receivables under service concession arrangements	16	**67,856**	63,183
Trade and bills receivables	20	**516,380**	389,695
Contract assets	21	**399,559**	223,649
Prepayments, other receivables and other assets	22	**175,230**	163,097
Pledged deposits	23	**7,122**	8,642
Cash and cash equivalents	23	**1,520,036**	1,416,990
Total current assets		**2,730,025**	2,304,924
TOTAL ASSETS		**9,752,553**	8,939,578

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to members of the Company			
Share capital	24	**2,227,564**	2,227,564
Equity component of convertible bonds	27	**147,029**	147,029
Other reserves	26(a)	**819,902**	443,117
		3,194,495	2,817,710
Non-controlling interests		**397,070**	293,255
TOTAL EQUITY		**3,591,565**	3,110,965
Non-current liabilities:			
Bank and other borrowings	28	**886,438**	783,500
Convertible bonds	27	**–**	2,147,168
Provision for major overhauls	29	**9,283**	7,298
Other payables	33	**20,210**	19,197
Deferred income	30	**150,626**	150,026
Deferred tax liabilities	31	**217,320**	238,638
Total non-current liabilities		**1,283,877**	3,345,827
Current liabilities:			
Trade payables	32	**760,696**	527,970
Other payables and accruals	33	**1,707,679**	1,672,960
Bank and other borrowings	28	**165,604**	203,427
Convertible bonds	27	**2,177,112**	–
Tax payables		**66,020**	78,429
Total current liabilities		**4,877,111**	2,482,786
TOTAL LIABILITIES		**6,160,988**	5,828,613
TOTAL EQUITY AND LIABILITIES		**9,752,553**	8,939,578

Ke Jian
Director

Sha Ning
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to members of the Company									
	Share capital HK$'000 (note 24)	**Equity component of convertible bonds** HK$'000 (note 27)	**Share option reserve** HK$'000 (note 26(b))	**Capital reserve** HK$'000	**Exchange fluctuation reserve** HK$'000	**PRC reserve funds** HK$'000 (note 26(c))	**Retained profits** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
At 1 January 2019	2,227,564	147,029	20,789	12,180	(154,468)	18,764	383,576	2,655,434	299,845	2,955,279
Profit for the year	–	–	–	–	–	–	222,232	222,232	(1,981)	220,251
Other comprehensive loss for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	(59,956)	–	–	(59,956)	(4,609)	(64,565)
Total comprehensive income for the year	–	–	–	–	(59,956)	–	222,232	162,276	(6,590)	155,686
Transfer to PRC reserve funds	–	–	–	–	–	7,380	(7,380)	–	–	–
At 31 December 2019 and 1 January 2020	**2,227,564**	**147,029**	**20,789***	**12,180***	**(214,424)***	**26,144***	**598,428***	**2,817,710**	**293,255**	**3,110,965**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**129,027**	**129,027**	**26,358**	**155,385**
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**247,758**	**–**	**–**	**247,758**	**22,176**	**269,934**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**247,758**	**–**	**129,027**	**376,785**	**48,534**	**425,319**
Capital contribution from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**55,281**	**55,281**
Transfer to PRC reserve funds	**–**	**–**	**–**	**–**	**–**	**18,135**	**(18,135)**	**–**	**–**	**–**
At 31 December 2020	**2,227,564**	**147,029**	**20,789***	**12,180***	**33,334***	**44,279***	**709,320***	**3,194,495**	**397,070**	**3,591,565**

* These reserve accounts comprise the consolidated other reserves of HK$819,902,000 (2019: HK$443,117,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**149,337**	246,805
Adjustments for:			
Interest income	5	**(11,392)**	(15,840)
Depreciation of property, plant and equipment	6	**89,251**	51,031
Depreciation of right-of-use assets	6	**15,726**	15,701
Amortisation of operating concessions	6	**101,657**	102,356
Amortisation of other intangible assets	6	**5,829**	6,035
Provision for major overhauls	6	**1,029**	1,021
Loss on disposal of items of property, plant and equipment, net	6	**203**	48
Fair value loss on an investment property	6	**1,348**	–
Impairment of property, plant and equipment	6	**54,549**	–
Impairment of right-of-use assets	6	**12,725**	–
Impairment of operating concessions	6	**115,169**	113,889
Impairment of other intangible assets	6	**55,123**	–
Impairment of trade and bills receivables, net	6	**186**	108
Finance costs	7	**75,805**	72,363
		666,545	593,517
Increase in inventories		**(1,711)**	(10,007)
Decrease/(increase) in receivables under operating concession arrangements		**(72,177)**	47,583
Increase in trade and bills receivables		**(97,861)**	(193,955)
Increase in contract assets		**(153,462)**	(157,054)
Decrease/(increase) in prepayments, other receivables and other assets		**28,421**	(44,682)
Increase in trade payables		**189,991**	150,912
Decrease in other payables and accruals		**(30,687)**	(55,137)
Decrease in deferred income		**(7,862)**	(7,686)
Cash generated from operations		**521,197**	323,491
Mainland China income tax paid		**(56,642)**	(26,492)
Hong Kong income tax paid		**(486)**	–
Net cash flows from operating activities		**464,069**	296,999

CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

Year ended 31 December 2020

	Note	**2020 HK$'000**	2019 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(53,435)**	(127,639)
Proceeds from disposal of items of property, plant and equipment		**973**	190
Additions of operating concessions		**(385,853)**	(51,084)
Purchases of items of other intangible assets		**(521)**	(852)
Decrease/(increase) in time deposits with maturity of more than three months when acquired		**78**	(110,714)
Decrease in pledged deposits		**1,919**	2,670
Interest received		**11,392**	15,840
Net cash flows used in investing activities		**(425,447)**	(271,589)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution by non-controlling interests		**55,281**	–
New bank loans		**86,787**	102,937
Repayment of bank loans		**(22,472)**	(22,727)
New other loans		**13,663**	85,761
Repayment of other loans		**(71,966)**	(127,273)
Repayment of an amount due to the immediate holding company		**–**	(300,000)
Principal portion of lease payments		**(13,443)**	(10,291)
Interest portion of lease payments		**(1,528)**	(2,121)
Interest paid		**(44,623)**	(43,569)
Net cash flows from/(used) in financing activities		**1,699**	(317,283)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**40,321**	(291,873)
Cash and cash equivalents at beginning of year		**1,306,276**	1,610,717
Effect of foreign exchange rate changes, net		**62,803**	(12,568)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,409,400**	1,306,276
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits			
Placed in banks	23	**1,305,564**	964,396
Placed in a financial institution	23	**33,031**	56,440
Time deposits	23	**188,563**	404,796
Less: Pledged deposits	23	**(7,122)**	(8,642)
Cash and cash equivalents as stated in the consolidated statement of financial position		**1,520,036**	1,416,990
Less: Time deposits with maturity of more than three months when acquired		**(110,636)**	(110,714)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**1,409,400**	1,306,276

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION

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

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the solid waste treatment business which comprises the construction and operation of waste incineration plants, waste treatment and the sale of electricity and steam generated from waste incineration.

At 31 December 2020, the immediate holding company of the Company is Idata Finance Trading Limited ("Idata"), a limited liability company incorporated in the British Virgin Islands. Idata is a wholly-owned subsidiary of Beijing Enterprises Holdings Limited ("BEHL") whose shares are listed on the Main Board of the Stock Exchange. In the opinion of the directors of the Company, the ultimate holding company of the Company is 北京控股集團有限公司 ("BEGCL"), which is a state-owned enterprise established in the People's Republic of China (the "PRC") and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality (the "Beijing SASAC").

Information about subsidiaries

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

Name	Place of registration and business	Issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
北京北控環境投資有限公司# (formerly named as 北發投資(北京)有限公司)	PRC/Mainland China	US$40,000,000	100	Investment holding
北京北控環境保護有限公司 (formerly named as 北京北發環保有限公司)	PRC/Mainland China	RMB75,000,000	100	Investment holding and provision of waste treatment construction and related services
北京北發建設發展有限公司	PRC/Mainland China	RMB20,000,000	80	Provision of waste treatment construction and related services
泰安北控環境能源開發有限公司# ("Taian Beikong")	PRC/Mainland China	US$40,700,000	100	Household waste incineration
常德中聯環保電力有限公司# ("Changde Zhonglian")	PRC/Mainland China	RMB145,652,300	100	Household waste incineration

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(CONTINUED)*

Information about subsidiaries *(continued)*

Name	Place of registration and business	Issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
北京北控綠海能環保有限公司* ("Beikong Lvhaineng")	PRC/Mainland China	RMB308,340,000	99	Household waste incineration
北京高安屯垃圾焚燒有限公司* ("Beijing Gaoantun")	PRC/Mainland China	RMB274,000,000	84.896	Household waste incineration
北控環境再生能源(張家港)有限公司# ("Beikong Zhangjiagang")	PRC/Mainland China	RMB482,514,911	100	Household waste incineration
哈爾濱市雙琦環保資源利用有限公司 ("Ha'erbin Shuangqi")	PRC/Mainland China	RMB240,000,000	80	Household waste incineration
北控環境再生能源沭陽有限公司 ("Beikong Shuyang")	PRC/Mainland China	RMB158,369,000	100	Household waste incineration
北控環境(文昌)再生能源有限公司 ("Beikong Wenchang")	PRC/Mainland China	RMB20,000,000	100	Household waste incineration
湖南衡興環保科技開發有限公司 ("Hunan Hengxing")	PRC/Mainland China	RMB38,090,000	65	Hazardous and medical waste treatment
北發合利(濟寧)環保電力有限公司 ("Beifa Jining")	PRC/Mainland China	RMB175,200,000	75	Household waste incineration
北京北控生態建設集團有限公司* ("Beikong Ecology", formerly named as 北京北發生態建設有限公司)	PRC/Mainland China	RMB66,000,000	51	Ecological construction

\# Registered as wholly-foreign-owned enterprises under PRC law
* Registered as Sino-foreign joint ventures under PRC law

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.1 BASIS OF PREPARATION

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

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets as at 31 December 2020. Taking into account the Group's internal resources and undertaking from an intermediate holding company and its subsidiaries not to demand repayment of the amounts due by the Group to them until such time when the Group is in a position to repay without impairing its liquidity and financial position, the directors of the Company considered that the Group will be able to operate on a going concern basis. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 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 owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.1 BASIS OF PREPARATION *(CONTINUED)*

Basis of consolidation *(continued)*

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *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	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The adoption of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs has had no significant financial effect on the financial position and performance of the Company.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 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

6 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

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

(a) 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

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

(b) 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 risk-free rate ("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.

The Group had certain interest-bearing bank and other borrowings denominated in Renminbi based on the loan prime rate ("LPR") from the People's Republic of China 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.

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

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

(d) 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.

(e) 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.

(f) 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

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

(g) *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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments in associates and joint ventures *(continued)*

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 asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

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

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.

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combinations and goodwill *(continued)*

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

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

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

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

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

Fair value measurement

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Fair value measurement *(continued)*

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

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

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

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

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

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets and investment properties), 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of non-financial assets *(continued)*

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

Related parties

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

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

- (i) has controls or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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 residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

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

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investment properties

Investment properties are interests 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 properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in 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.

Service concession arrangements

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

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

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

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

The accounting for service concession arrangements is as follows:

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that 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. The Group has an unconditional right to receive cash or another financial asset if only the passage of time is required before payment of that 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 the specified quality of efficiency requirements. The financial asset (receivable under a service concession arrangement) is accounted for in accordance with the policy set out for "Investments and other financial assets" below.

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Service concession arrangements *(continued)*

Consideration given by the grantor *(continued)*

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

Construction services

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

Operating services

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

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

The Group has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain the solid waste incineration plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the solid waste incineration plants, except for upgrade elements, 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 at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. The principal annual rates used for this purpose are as follows:

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

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

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

Operating 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:

Land and building	2 to 5 years
Leasehold land	50 years

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.

(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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Operating leases *(continued)*

Group as a lessee *(continued)*

(b) Lease liabilities (continued)

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.

The Group's lease liabilities are included in "Other payables and accruals".

(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 building, 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 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 *(CONTINUED)*

31 December 2020

2.4 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

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 *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Derecognition of financial assets

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

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

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

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

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

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 *(CONTINUED)*

31 December 2020

2.4 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 when contractual payments are 3 years past due. As some of the customers of the Group are enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities affiliates or other organisations and there was no history of default in prior years, the directors of the Company considered the default rate is minimal. 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.

Debt investments at fair value through other comprehensive income 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 except for trade receivables and contract assets which apply the simplified approach 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

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

After initial recognition, 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 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.

Convertible bonds

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

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Convertible bonds *(continued)*

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

Offsetting of financial instruments

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

Inventories

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

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, which are not restricted as to use.

Provisions

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax

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

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

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

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

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

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

Deferred tax assets are recognised for all deductible temporary differences, 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:

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

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

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

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

Government 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.

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 *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition *(continued)*

***Revenue from contracts with customers** (continued)*

(a) Waste and other treatments

Revenue from waste treatment, leachate, sludge and other treatments is recognised at the point in time when the services are rendered.

(b) Sales of electricity and steam

Revenue from the sales of electricity and steam 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 electricity and/or steam and the Group has the present right to payment and the collection of the consideration is probable.

(c) Construction services

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the waste treatment and ecological construction services.

Revenue from other 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.

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.

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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

Employee benefits

Share-based payments

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

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits *(continued)*

Share-based payments *(continued)*

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

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

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

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

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

Pension schemes

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Borrowing costs

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 overseas and Mainland China subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies *(continued)*

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less costs of disposal of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. For the Group's service concession arrangements, an assumption is also made on the possibility of renewal of the relevant operating rights upon expiry which enables the Group to generate income perpetually. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2020 was HK$1,122,551,000 (2019: HK$1,122,551,000), details of which are set out in note 15 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The carrying amounts of items of non-financial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is the higher of its fair value less costs of disposal and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows or compensation to be received for relevant 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.

Details of the impairment losses recognised on the Group's property, plant and equipment, right-of-use assets, operating concessions and other intangible assets during the year are set out in notes 12, 14, 16 and 17 to the financial statements.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

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

Percentage of completion of construction work

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

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

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

Current tax and deferred tax

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments.

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

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

(b) the ecological construction services segment comprises the ecological construction, design, project survey and design and construction project management; and

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

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

The following tables present revenue, profit/loss, total assets and total liabilities regarding the Group's operating segments for the years ended 31 December 2020 and 2019.

	Solid waste treatment HK$'000	Ecological construction services HK$'000	Corporate and others HK$'000	Total HK$'000
Year ended 31 December 2020				
Segment revenue (note 5)	1,379,817	410,794	–	1,790,611
Cost of sales	(951,801)	(307,340)	–	(1,259,141)
Gross profit	428,016	103,454	–	531,470
Profit/(loss) from operating activities	160,409	64,982	(249)	225,142
Finance costs	(43,366)	(2,369)	(30,070)	(75,805)
Profit/(loss) before tax	117,043	62,613	(30,319)	149,337
Income tax	15,426	(8,843)	(535)	6,048
Profit/(loss) for the year	132,469	53,770	(30,854)	155,385
Segment profit/(loss) attributable to members of the Company	132,572	27,676	(31,221)	129,027
Segment assets	8,973,091	585,564	193,898	9,752,553
Segment liabilities	3,066,609	419,267	2,675,112	6,160,988
Other segment information:				
Interest income	2,951	233	8,208	11,392
Impairment of segment assets, net	237,718	34	–	237,752
Depreciation of property, plant and equipment	82,724	6,288	239	89,251
Depreciation of right-of-use assets	5,928	5,448	4,350	15,726
Amortisation of operating concessions	101,657	–	–	101,657
Amortisation of other intangible assets	5,780	38	11	5,829
Investment in a joint venture	6,652	–	–	6,652
Capital expenditure*	458,229	1,554	84	459,867

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

	Solid waste treatment HK$'000	Ecological construction services HK$'000	Corporate and others HK$'000	Total HK$'000
Year ended 31 December 2019				
Segment revenue (note 5)	1,104,012	280,101	–	1,384,113
Cost of sales	(688,996)	(210,492)	–	(899,488)
Gross profit	415,016	69,609	–	484,625
Profit/(loss) from operating activities	296,648	37,088	(14,568)	319,168
Finance costs	(39,848)	(2,689)	(29,826)	(72,363)
Profit/(loss) before tax	256,800	34,399	(44,394)	246,805
Income tax	(20,477)	(5,534)	(543)	(26,554)
Profit/(loss) for the year	236,323	28,865	(44,937)	220,251
Segment profit/(loss) attributable to members of the Company	252,410	14,865	(45,043)	222,232
Segment assets	8,117,033	417,778	404,767	8,939,578
Segment liabilities	2,888,400	316,339	2,623,874	5,828,613
Other segment information:				
Interest income	4,130	136	11,574	15,840
Impairment/(reversal of impairment) of segment assets, net	114,007	(10)	–	113,997
Depreciation of property, plant and equipment	46,885	3,586	560	51,031
Depreciation of right-of-use assets	5,217	5,510	4,974	15,701
Amortisation of operating concessions	102,356	–	–	102,356
Amortisation of other intangible assets	5,976	48	11	6,035
Investment in a joint venture	6,652	–	–	6,652
Capital expenditure*	169,953	25,449	144	195,546

* Capital expenditure consists of additions to property, plant and equipment, right-of-use assets, operating concessions and other intangible assets.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Geographical information

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

Information about a major customer

During the year, the Group had revenue from transactions with an external customer which accounted for over 10% of the Group's total revenue. The revenue generated from sales to this customer amounted to HK$217,657,000 (2019: HK$314,068,000).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

5. REVENUE, OTHER INCOME AND GAIN, NET

An analysis of the Group's revenue, other income and gain, net is as follows:

	2020 **HK$'000**	2019 HK$'000
Revenue		
Household waste treatment*	**266,478**	273,433
Hazardous and medical waste treatment	**53,340**	53,742
Food waste, leachate, sludge and other treatments	**99,297**	45,181
Sale of electricity	**611,826**	654,092
Sale of steam	**13,184**	25,757
Waste treatment construction and related services*	**335,692**	51,807
Ecological construction and related services	**410,794**	280,101
	1,790,611	1,384,113
Other income		
Value-added tax refund	**66,006**	49,932
Interest income	**11,392**	15,840
Compensation income	**–**	20,455
Rental income	**2,894**	2,964
Government grant#	**2,557**	1,828
Others	**4,395**	3,863
	87,244	94,882
Gain, net		
Foreign exchange gain, net	**6,948**	–
Other income and gain, net	**94,192**	94,882

* Imputed interest income under service concession arrangements during the year amounting to HK$90,693,000 (2019: HK$91,778,000) was included in the revenue derived from household waste treatment services and waste treatment construction and related services.

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

5. REVENUE, OTHER INCOME AND GAIN, NET *(CONTINUED)*

Revenue from contracts with customers

(i) Disaggregated revenue information

Segment	Solid waste treatment HK$'000	Ecological construction services HK$'000	Total HK$'000
Year ended 31 December 2020			
Types of goods or services			
Household waste treatment	**176,863**	**–**	**176,863**
Hazardous and medical waste treatment	**53,340**	**–**	**53,340**
Food waste, leachate, sludge and other treatments	**99,297**	**–**	**99,297**
Sale of electricity	**611,826**	**–**	**611,826**
Sale of steam	**13,184**	**–**	**13,184**
Waste treatment construction and related services	**334,614**	**–**	**334,614**
Landscaping construction services	**–**	**353,380**	**353,380**
Landscaping design services	**–**	**57,414**	**57,414**
Total revenue from contracts with customers	**1,289,124**	**410,794**	**1,699,918**
Revenue from another source:			
Imputed interest income	**90,693**	**–**	**90,693**
Total revenue	**1,379,817**	**410,794**	**1,790,611**
Geographical markets			
Mainland China	**1,278,823**	**410,794**	**1,689,617**
Hong Kong	**10,301**	**–**	**10,301**
Total revenue from contracts with customers	**1,289,124**	**410,794**	**1,699,918**
Revenue from another source:			
Imputed interest income	**90,693**	**–**	**90,693**
Total revenue	**1,379,817**	**410,794**	**1,790,611**
Timing of revenue recognition			
Goods and services transferred at a point in time	**964,811**	**–**	**964,811**
Services transferred over time	**324,313**	**410,794**	**735,107**
Total revenue from contracts with customers	**1,289,124**	**410,794**	**1,699,918**
Revenue from another source:			
Imputed interest income	**90,693**	**–**	**90,693**
Total revenue	**1,379,817**	**410,794**	**1,790,611**

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

5. REVENUE, OTHER INCOME AND GAIN, NET *(CONTINUED)*

Revenue from contracts with customers *(continued)*

(i) Disaggregated revenue information *(continued)*

Segment	Solid waste treatment HK$'000	Ecological construction services HK$'000	Total HK$'000
Year ended 31 December 2019			
Types of goods or services			
Household waste treatment	181,655	–	181,655
Hazardous and medical waste treatment	53,742	–	53,742
Food waste, leachate, sludge and other treatments	45,181	–	45,181
Sale of electricity	654,092	–	654,092
Sale of steam	25,757	–	25,757
Waste treatment construction and related services	51,807	–	51,807
Landscaping construction services	–	248,954	248,954
Landscaping design services	–	31,147	31,147
Total revenue from contracts with customers	1,012,234	280,101	1,292,335
Revenue from another source:			
Imputed interest income	91,778	–	91,778
Total revenue	1,104,012	280,101	1,384,113
Geographical markets			
Mainland China	979,513	280,101	1,259,614
Hong Kong	32,721	–	32,721
Total revenue from contracts with customers	1,012,234	280,101	1,292,335
Revenue from another source:			
Imputed interest income	91,778	–	91,778
Total revenue	1,104,012	280,101	1,384,113
Timing of revenue recognition			
Goods and services transferred at a point in time	993,148	–	993,148
Services transferred over time	19,086	280,101	299,187
Total revenue from contracts with customers	1,012,234	280,101	1,292,335
Revenue from another source:			
Imputed interest income	91,778	–	91,778
Total revenue	1,104,012	280,101	1,384,113

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

5. REVENUE, OTHER INCOME AND GAIN, NET *(CONTINUED)*

Revenue from contracts with customers *(continued)*

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

(a) *Waste and other treatments*
The performance obligation of waste treatment, leachate, sludge and other treatments is satisfied at the point in time.

(b) *Sales of electricity and steam*
The performance obligation is satisfied when control of the asset is transferred to the customer, generally when the customer obtains the physical possession or the legal title of the electricity and/or steam and the Group has the present right to payment and the collection of the consideration is probable.

(c) *Construction services*
The performance obligation is satisfied over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the waste treatment and ecological construction services.

(d) The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) with an original expected duration of one year or more as at 31 December are as follows:

	2020 **HK$'000**	2019 HK$'000
Amounts expected to be recognised as revenue:		
Within one year	**1,407,345**	547,681
After one year	**1,414,010**	1,310,163
Total (note)	**2,821,355**	1,857,844

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to waste treatment construction services, of which the performance obligations are to be satisfied within two years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

Note:

The Group has applied the practical expedient in HKFRS 15 to its revenue from household waste treatment service contracts for not disclosing the remaining performance obligations under the Group's existing contracts as the Group recognises revenue from the satisfaction of the performance obligation in the amount to which the Group has a right to consideration from a customer that corresponds directly with the value to the customer of the entity's performance completed to date. For all other contracts in which the performance obligations are expected to be recognised as revenue with an original expected duration of one year or less, the transaction price allocated to these unsatisfied contracts is not disclosed as permitted under HKFRS 15.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	**2020 HK$'000**	2019 HK$'000
Cost of raw materials consumed		**97,041**	129,833
Cost of waste treatment services rendered*		**398,161**	362,319
Cost of waste treatment construction services		**276,764**	52,662
Cost of ecological construction services		**307,340**	210,492
Depreciation of property, plant and equipment$^{\Omega}$	12	**89,251**	51,031
Loss on disposal of items of property, plant and equipment, net#		**203**	48
Fair value loss on an investment property#	13	**1,348**	–
Lease payments not included in the measurement of lease liabilities	14(c)	**5,947**	7,598
Depreciation of right-of-use assets@	14(a)	**15,726**	15,701
Amortisation of operating concessions^	16	**101,657**	102,356
Amortisation of other intangible assets^	17	**5,829**	6,035
Provision for major overhauls^	29	**1,029**	1,021
Impairment of property, plant and equipment#	12	**54,549**	–
Impairment of right-of-use assets#	14(a)	**12,725**	–
Impairment of operating concessions#	16	**115,169**	113,889
Impairment of other intangible assets#	17	**55,123**	–
Impairment of trade receivables, net#	20(c)	**186**	108
Auditor's remuneration		**2,860**	2,797
Employee benefit expense (including directors' remuneration – note 8):			
Wages and salaries		**220,693**	214,426
Pension scheme contributions (defined contribution scheme)		**1,824**	20,379
		222,517	234,805
Less: Amount capitalised		**(14,359)**	(28,128)
		208,158	206,677
Foreign exchange difference, net		**(6,948)**	695

* The cost of waste treatment services rendered does not include the recognition of government subsidies of HK$7,304,000 (2019: HK$7,430,000) based on the straight-line basis over the expected useful lives of the relevant assets (note 30), which is included in "Cost of sales" in the consolidated statement of profit or loss.

Ω A depreciation amount of property, plant and equipment of HK$77,678,000 (2019: HK$41,382,000) is included in "Cost of sales" in the consolidated statement of profit or loss.

@ A depreciation amount of right-of-use assets of HK$1,146,000 (2019: HK$1,159,000) is included in "Cost of sales" in the consolidated statement of profit or loss.

^ The amortisation of operating concessions and other intangible assets (excluding computer software amounting to HK$200,000 (2019: HK$341,000)), and the provision for major overhauls are included in "Cost of sales" in the consolidated statement of profit or loss.

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Notes	2020 HK$'000	2019 HK$'000
Interest on bank and other borrowings		**44,623**	43,569
Imputed interest on convertible bonds	27	**29,944**	29,451
Interest on lease liabilities	14(b)	**1,528**	2,121
Total interest expenses		**76,095**	75,141
Less: Interest capitalised		**(725)**	(3,140)
		75,370	72,001
Other finance costs:			
Increase in discounted amounts of provision for major overhauls arising from the passage of time	29	**435**	362
		75,805	72,363

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules"), 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:

	2020 HK$'000	2019 HK$'000
Fees	**870**	870
Other emoluments:		
Salaries, allowances and benefits in kind	**–**	–
Pension scheme contributions	**2**	2
	2	2
	872	872

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

8. DIRECTORS' REMUNERATION *(CONTINUED)*

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2020				
Executive directors				
Mr. E Meng*	**–**	**–**	**–**	**–**
Mr. Ke Jian	**–**	**–**	**–**	**–**
Ms. Sha Ning	**–**	**–**	**–**	**–**
Mr. Ng Kong Fat, Brian	**120**	**–**	**2**	**122**
	120	**–**	**2**	**122**
Independent non-executive directors				
Dr. Jin Lizuo	**150**	**–**	**–**	**150**
Dr. Huan Guocang	**150**	**–**	**–**	**150**
Dr. Wang Jianping	**150**	**–**	**–**	**150**
Prof. Nie Yongfeng	**150**	**–**	**–**	**150**
Mr. Cheung Ming	**150**	**–**	**–**	**150**
	750	**–**	**–**	**750**
Total	**870**	**–**	**2**	**872**
Year ended 31 December 2019				
Executive directors				
Mr. E Meng	–	–	–	–
Mr. Ke Jian	–	–	–	–
Ms. Sha Ning	–	–	–	–
Mr. Ng Kong Fat, Brian	120	–	2	122
	120	–	2	122
Independent non-executive directors				
Dr. Jin Lizuo	150	–	–	150
Dr. Huan Guocang	150	–	–	150
Dr. Wang Jianping	150	–	–	150
Prof. Nie Yongfeng	150	–	–	150
Mr. Cheung Ming	150	–	–	150
	750	–	–	750
Total	870	–	2	872

* Resigned on 3 January 2020

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year do not include any director (2019: none). Details of the remuneration of the five (2019: five) non-director, highest paid employees for the year are as follows:

	2020	2019
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**5,122**	5,535
Pension scheme contributions	**67**	185
	5,189	5,720

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

	2020	2019
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**3**	4
	5	5

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2020	2019
	HK$'000	HK$'000
Current — Hong Kong		
Charge for the year	**72**	19
Overprovision in prior years	**(19)**	(49)
Current — Mainland China		
Charge for the year	**38,178**	39,925
Overprovision in prior years	**(1,157)**	(1,901)
	37,074	37,994
Deferred (note 31)	**(43,122)**	(11,440)
Total tax charge/(credit) for the year	**(6,048)**	26,554

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

10. INCOME TAX *(CONTINUED)*

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

	2020		2019	
	HK$'000	**%**	HK$'000	%
Profit before tax	**149,337**		246,805	
Tax at the statutory tax rates	**42,575**	**28.5**	62,043	25.1
Effect of withholding tax on interest income from intercompany loans and rental income from lessees in the PRC	**(85)**	**–**	2,197	0.9
Tax concession enjoyed	**(53,790)**	**(36.0)**	(67,055)	(27.2)
Adjustments in respect of current tax of previous periods	**(1,176)**	**(0.8)**	(1,950)	(0.8)
Income not subject to tax	**(1,466)**	**(1.0)**	(3,780)	(1.5)
Expenses not deductible for tax	**8,487**	**5.7**	11,030	4.5
Tax losses not recognised	**3,345**	**2.2**	26,968	10.9
Tax losses utilised from previous periods	**(3,938)**	**(2.6)**	(2,899)	(1.1)
Tax charge/(credit) at the Group's effective rate	**(6,048)**	**(4.0)**	26,554	10.8

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

11. EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF THE COMPANY

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

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to members of the Company, adjusted to reflect the imputed interest on convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue 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 or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2020 **HK$'000**	2019 HK$'000
Earnings		
Profit for the year attributable to members of the Company, used in the basic earnings per share calculation	**129,027**	222,232
Imputed interest on convertible bonds (note 7)	**29,944**	29,451
Profit for the year attributable to members of the Company before imputed interest on convertible bonds	**158,971**	251,683

	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,500,360,150**	1,500,360,150
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	**1,948,938,053**	1,948,938,053
	3,449,298,203	3,449,298,203

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2020							
At 1 January 2020:							
Cost	201,870	42,254	543,150	15,386	23,390	489,077	1,315,127
Accumulated depreciation	(36,891)	(11,540)	(119,883)	(9,470)	(11,945)	–	(189,729)
Net carrying amount	164,979	30,714	423,267	5,916	11,445	489,077	1,125,398
Net carrying amount:							
At 1 January 2020	164,979	30,714	423,267	5,916	11,445	489,077	1,125,398
Additions	–	4,422	5,694	3,059	2,140	38,120	53,435
Depreciation provided during the year (note 6)	(25,082)	(9,546)	(49,789)	(2,235)	(2,599)	–	(89,251)
Impairment (note 6)	(3,213)	–	(51,304)	(32)	–	–	(54,549)
Disposals	–	(33)	(393)	(145)	(605)	–	(1,176)
Transfer from construction in progress	247,766	–	219,573	–	–	(467,339)	–
Exchange realignment	22,885	5,458	32,561	385	617	3,563	65,469
At 31 December 2020	407,335	31,015	579,609	6,948	10,998	63,421	1,099,326
At 31 December 2020:							
Cost	468,145	53,290	812,408	18,582	25,597	63,421	1,441,443
Accumulated depreciation and impairment	(60,810)	(22,275)	(232,799)	(11,634)	(14,599)	–	(342,117)
Net carrying amount	407,335	31,015	579,609	6,948	10,998	63,421	1,099,326

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

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

	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2019							
At 1 January 2019:							
Cost	204,376	13,574	539,350	13,238	19,974	405,823	1,196,335
Accumulated depreciation	(27,712)	(7,265)	(90,029)	(7,809)	(9,746)	–	(142,561)
Net carrying amount	176,664	6,309	449,321	5,429	10,228	405,823	1,053,774
Net carrying amount:							
At 1 January 2019	176,664	6,309	449,321	5,429	10,228	405,823	1,053,774
Additions	–	29,212	1,547	2,809	4,592	102,310	140,470
Depreciation provided during the year (note 6)	(9,723)	(4,430)	(31,666)	(2,230)	(2,982)	–	(51,031)
Disposals	–	–	(21)	(1)	(216)	–	(238)
Transfer from construction in progress	716	–	10,938	–	–	(11,654)	–
Exchange realignment	(2,678)	(377)	(6,852)	(91)	(177)	(7,402)	(17,577)
At 31 December 2019	164,979	30,714	423,267	5,916	11,445	489,077	1,125,398
At 31 December 2019:							
Cost	201,870	42,254	543,150	15,386	23,390	489,077	1,315,127
Accumulated depreciation	(36,891)	(11,540)	(119,883)	(9,470)	(11,945)	–	(189,729)
Net carrying amount	164,979	30,714	423,267	5,916	11,445	489,077	1,125,398

Notes:

(a) At 31 December 2020, the buildings in relation to a solid waste incineration plant with a net carrying amount of HK$282,873,000 (2019: HK$45,322,000) were pledged to secure a bank loan granted to the Group (note 28(b)).

(b) At 31 December 2020, the Group was in the process of applying for the change of registration of the title certificates with respect to the buildings of the plant of Beikong Zhangjiagang to which the Group's service concession arrangement relates. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of the buildings and that the Group would not have any legal barriers in obtaining the title certificates.

Moreover, at 31 December 2020, the Group was in the process of applying for the completion of final acceptance of the construction of the plant of Beikong Zhangjiagang from the relevant government authorities. The directors of the Company are of the opinion that the Group expected to have no legal barriers in completing the final acceptance of the plant of Beikong Zhangjiagang or subject to any administrative sanctions and the Group is legitimated to operate the plant of Beikong Zhangjiagang.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

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

Notes: *(continued)*

(c) The Group's property, plant and equipment included the assets of a solid waste incineration plant of Taian Beikong (the "Taian Plant") under an operating concession arrangement on a Build-Operate-Own ("BOO") basis. During the year ended 31 December 2019, a portion of the assets of the Taian Plant was required for further modification in order to meet the new measures on environmental protection and emission imposed by the PRC government. According to the terms of the original service concession agreement, under such circumstance, the Group has the right to request for the increase in solid waste treatment fees from the local government for compensating the costs of modification to be borne by the Group and the Group had been in negotiation with the local government to revise the terms of the service concession agreement since the prior year.

According to the communication with the local government during the year, the current intention of the local government is to phase out a portion of the assets (the "Phased Out Assets") of the Taian Plant in order to meet the new measures on environmental protection and emission imposed by the PRC government and the losses to be suffered by the Group will be borne by the Group, while the Group will be compensated by the local government for those assets that can be continued to be used in the same project. Despite that the Group is still in negotiation with the local government to revise the terms of service concession agreement up to the date of approval of the financial statements, in the opinion of the directors, it is not likely the Phased Out Assets could be recovered by the Group. Accordingly, impairment losses of HK$54,549,000, HK$12,725,000, and HK$55,123,000 have been recognised to write down their carrying amounts to their respective recoverable amounts of zero of the Phased Out Assets included in property, plant and equipment, right-of-use assets (leasehold land) (note 14) and other intangible assets (note 17) of the Taian Plant, respectively, during the year 31 December 2020.

(d) The Group's property, plant and equipment also included the assets of a solid waste incineration plant (the "Existing Zhangjiagang Plant") of Beikong Zhangjiagang, which is operating under a BOO basis with an original concession period of 30 years up to 2038. During the year ended 31 December 2019, the Group has agreed with the local governmental authority to construct and operate a new plant (the "New Zhangjiagang Plant") on a Build-Operate-Transfer ("BOT") basis with a concession period of 30 years in order to replace the Existing Zhangjiagang Plant, which, the construction of the New Zhangjiagang Plant had commenced during the year. According to the negotiation with the local government authorities, the residual value of the Existing Zhangjiagang Plant would be compensated by the local government. Thus, in the opinion of the directors, no impairment was considered necessary for the Existing Zhangjiagang Plant as at 31 December 2019 and 2020.

13. INVESTMENT PROPERTY

	2020 **HK$'000**	2019 HK$'000
Carrying amount at 1 January	**47,191**	47,945
Fair value loss (note 6)	**(1,348)**	–
Exchange realignment	**2,728**	(754)
Carrying amount at 31 December	**48,571**	47,191

The Group's investment property is a commercial property located at Block 5, Beikong Hong Chuang Technology Park, No. A1, Chaoqian Road, Changping District, Beijing, the PRC ("Hong Chuang Building"), which is held under a medium term lease with 100% interest.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

13. INVESTMENT PROPERTY *(CONTINUED)*

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

On 31 August 2015, the Company entered into a property escrow agreement with Hong Chuang, pursuant to which Hong Chuang will provide the escrow services for sub-leasing the Hong Chuang Building for an escrow period of three years from 1 September 2015 to 31 August 2018 and at an annual rent of RMB2,575,987. The property escrow agreement has been renewed on 25 October 2018 to extend the escrow period for three years to 31 August 2021 at an annual rent of RMB2,575,987 (subject to annual adjustment, if necessary). Further details of the transaction are set out in the announcement of the Company dated 25 October 2018. During the year, the rental income recognised in profit or loss amounted to HK$2,894,000 (2019: HK$2,927,000). Despite that the Company is still in the process of applying for the change of registration of the title certificates with respect to the land use right and the Hong Chuang Building up to the date of approval of these financial statements, the directors of the Company are of the opinion that the title of the property had been transferred to the Company according to the property transfer agreement upon the effective date of the property escrow agreement and the Company is entitled to the lawful and valid occupation or use of the Hong Chuang Building and that the Company would not have any legal barriers in obtaining the title certificates.

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

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

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

At 31 December 2020, the Hong Chuang Building was revalued based on a valuation performed by Cushman & Wakefield Limited, independent professionally qualified valuers, by using the direct comparison method. Under the direct comparison method, the capital value is with reference to comparable sale transactions as available in the relevant market. Comparable properties are analysed and carefully weighted against all the respective advantages and disadvantages of each property, including the location, quality, level, asking price adjustment, internal decoration, view and size in order to arrive at a fair comparison of capital value.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of land and buildings, 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 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of land and buildings generally have lease terms between 2 and 5 years. Machinery, motor vehicles and other equipment generally have lease terms of 12 months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(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:

	Note	**Buildings** HK$'000	**Leasehold land** HK$'000	**Total** HK$'000
At 1 January 2019		44,197	49,122	93,319
Depreciation charge	6	(14,542)	(1,159)	(15,701)
Exchange realignment		(531)	(760)	(1,291)
At 31 December 2019 and 1 January 2020		**29,124**	**47,203**	**76,327**
Additions		**14,908**	**–**	**14,908**
Depreciation charge	6	**(14,580)**	**(1,146)**	**(15,726)**
Impairment (note (ii))	6	**–**	**(12,725)**	**(12,725)**
Exchange realignment		**1,753**	**1,984**	**3,737**
At 31 December 2020		**31,205**	**35,316**	**66,521**

Notes:

(i) At 31 December 2020, the leasehold land in relation to a solid waste incineration plant with a net carrying amount of HK$7,848,000 (2019: HK$20,649,000) was pledged to secure a bank loan granted to the Group (note 28(b)).

(ii) Details of the impairment of the leasehold land are disclosed in note 12(c) to the financial statements.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

14. LEASES *(CONTINUED)*

The Group as a lessee *(continued)*

(b) Lease liabilities

The carrying amount of lease liabilities (included under "Other payables and accruals") and the movements during the year are as follows:

	Notes	2020 HK$'000	2019 HK$'000
Carrying amount at 1 January		**30,571**	42,779
New leases		**14,908**	–
Accretion of interest recognised during the year	7	**1,528**	2,121
Payments		**(14,971)**	(12,412)
Exchange realignment		**(216)**	(1,917)
Carrying amount at 31 December	33	**31,820**	30,571
Current portion		**(11,610)**	(11,374)
Non-current portion		**20,210**	19,197

The maturity analysis of lease liabilities (included under "Other payables and accruals") is disclosed in note 42(d) to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 HK$'000	2019 HK$'000
Interest on lease liabilities	**1,528**	2,121
Depreciation charge of right-of-use assets (note 6)	**15,726**	15,701
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December	**5,762**	6,905
Expense relating to leases of low-value assets	**185**	693
Total amount recognised in profit or loss	**23,201**	25,420

(d) The total cash outflow for leases included in the statement of cash flows is disclosed in note 35(b) to the financial statements.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

14. LEASES *(CONTINUED)*

The Group as a lessor

The Group leases its investment property consisting of a commercial property in Mainland China under an operating lease arrangement. The term of the lease provides for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was HK$2,894,000 (2019: HK$2,927,000), details of which are included in note 13 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	2019
	HK$'000	HK$'000
Within one year	**1,930**	2,894
After one year but within two years	**–**	1,930
	1,930	4,824

15. GOODWILL

	2020	2019
	HK$'000	HK$'000
At 1 January and 31 December		
At cost and net carrying amount	**1,122,551**	1,122,551

Impairment testing of goodwill

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

The recoverable amount of the cash-generating unit of the solid waste treatment segment has been determined based on a value-in-use calculation using cash flow projections based on financial forecasts approved by senior management covering the service concession periods and based on the assumption that sizes of the operations remain constant perpetually. The discount rate applied to the cash flow projections was 9.2% (2019: 9.6%). The growth rate used to extrapolate the cash flows beyond the service concession periods was 3% (2019: 3%).

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).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

15. GOODWILL *(CONTINUED)*

Impairment testing of goodwill *(continued)*

Assumptions were used in the value-in-use calculation of the solid waste treatment segment for 31 December 2020 and 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

Discount rates – The discount rates used are after tax and reflect specific risks relating to the relevant business units. The pre-tax discount rate implied in the cash flow projections is 10.3% for the relevant business units (2019: 11.19%).

16. SERVICE CONCESSION ARRANGEMENTS

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

16. SERVICE CONCESSION ARRANGEMENTS *(CONTINUED)*

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

Name of company as operator	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (tonnes/day)	Service concession period
Changde Zhonglian	Hunan	常德市環境衛生管理處	BOT	Phase I: 800	27 years from 2010 to 2037
				Phase II: 600	25 years from 2019 to 2044
				Phase III: 600	27 years from 2020 to 2047
Beikong Lvhaineng	Beijing	北京市海澱區市政市容管理委員會	BOT	2,100	30 years from 2018 to 2048
Beijing Gaoantun	Beijing	北京市朝陽區市政市容管理委員會	BOT	1,600	30 years from 2005 to 2034
Ha'erbin Shuangqi	Heilongjiang	哈爾濱市城市管理局	BOT	Phase I: 400	30 years from 2013 to 2043
				Phase II: 1,200	30 years from 2013 to 2043
Beikong Shuyang	Jiangsu	江蘇省沭陽縣人民政府	BOT	Phase I: 600	30 years from 2015 to 2045
				Phase II: 600	30 years from 2018 to 2048
Beikong Wenchang	Hainan	海南省文昌市人民政府	BOT	225	15 years from 2012 to 2027
Hunan Hengxing	Hunan	湖南省環境保護廳	BOT	96	25 years from 2017 to 2042
Beikong Zhangjiagang	Jiangsu	張家港市靜脈科技產業園管理委員會	BOT	2,250	30 years from 2021 to 2051
Beikong Jining	Shandong	濟寧市兗州區綜合行政執法局	BOT	1,500	30 years from 2020 to 2049

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

16. SERVICE CONCESSION ARRANGEMENTS *(CONTINUED)*

Pursuant to the service concession agreements entered into by the Group, the Group is granted the rights to use the land and the property, plant and equipment of the Facilities, which are generally registered under the name of the relevant subsidiaries of the Group, during the Service Concession Periods, but the Group is generally required to return the property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods under the BOT arrangements. At 31 December 2020, the Group was in the process of applying for the change of registration of the title certificates with respect to the land use right and the buildings of several Facilities to which the Group's service concession arrangements relate. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of these buildings and land and that the Group would not have any legal barriers in obtaining the title certificates.

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

16. SERVICE CONCESSION ARRANGEMENTS *(CONTINUED)*

Operating concessions

	Note	2020 HK$'000	2019 HK$'000
At 1 January:			
Cost		**2,556,559**	2,626,879
Accumulated amortisation and impairment		**(424,284)**	(213,832)
Net carrying amount		**2,132,275**	2,413,047
Net carrying amount:			
At 1 January		**2,132,275**	2,413,047
Additions		**405,911**	54,224
Actual cost adjustment		**(19,333)**	(83,552)
Amortisation provided during the year	6	**(101,657)**	(102,356)
Impairment (notes)	6	**(115,169)**	(113,889)
Exchange realignment		**137,026**	(35,199)
At 31 December		**2,439,053**	2,132,275
At 31 December:			
Cost		**3,118,324**	2,556,559
Accumulated amortisation and impairment		**(679,271)**	(424,284)
Net carrying amount		**2,439,053**	2,132,275

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

16. SERVICE CONCESSION ARRANGEMENTS *(CONTINUED)*

Operating concessions *(continued)*

Notes:

(a) On 29 September 2020, the Ministry of Finance, the National Development and Reform Commission and the National Energy Administration of the PRC issued the supplementary circular on issues related to the "Opinions on promoting the healthy development of non-hydro renewable power generation" (Caijian [2020] No. 426) (the "Supplementary Circular"). According to the Supplementary Circular, certain solid waste treatment projects of the Group will not be entitled to the renewable energy tariff subsidy when the operation period exceeds the prescribed lifetime operation hours or years, whichever period is the shorter, or the volume of electricity in which tariff subsidy is claimed exceeds the prescribed volume. Accordingly, the future operating cashflows of the solid waste treatment segment of the Group will be affected by the Supplementary Circular.

In light of the above, management had appointed an independent professional valuer to estimate the recoverable amount of relevant assets of each of the Group's cash-generating units. The recoverable amounts of the related assets were estimated based on a value-in-use calculation using cash flow projections based on financial forecasts approved by senior management and after taking into consideration of the impact of the Supplementary Circular on the cash flow projections. The pre-tax discount rate applied to the cash flow projections was 10.3%. Based on the results of the impairment assessment, the recoverable amounts of certain solid waste treatment projects (with carrying amount of HK$1,389,629,000) were estimated to be approximately HK$1,274,460,000, and an impairment of HK$115,169,000 had been recognised on the operating concessions of the Group during the year ended 31 December 2020.

(b) During the year ended 31 December 2019, a portion of the assets of the solid waste incineration plant of Changde Zhonglian would be phased out in advance in order to meet the new measures on environmental protection and emission imposed by the PRC government. According to the terms of the original service concession agreement and after negotiation with the local government authorities, the losses to be suffered by the Group relating to assets to be dismantled (the "Subject Assets") would be borne by the Group, while the Group would be compensated by the local government for those assets that can be continued to be used in other phases of the same project (the "Retained Assets"). The Group is currently finalising the details of the compensation arrangement for the Retained Assets with the local government.

During the year ended 31 December 2019, an impairment of HK$46,042,000 had been recognised on the Subject Assets based on their respective net carrying amounts and no further impairment is considered during the year.

(c) During the year ended 31 December 2019, the Group's solid waste incineration plant of Ha'erbin Shuangqi, had been underperforming due to the extreme cold weather in winter and left-behind construction problems during the project construction period. This indicated that the related assets of the service concession arrangement, with a net carrying amount of HK$770,094,000 as at 31 December 2019, might have been impaired. Management had appointed an independent professional valuer to estimate the recoverable amount of the related assets based on a value-in-use calculation using cash flow projections based on financial forecasts approved by senior management. The pre-tax discount rate applied to the cash flow projections was 11.19%. Based on the results of the impairment assessment, the recoverable amount of the Ha'erbin project was estimated to be approximately HK$702,247,000, and an impairment of HK$67,847,000 had been recognised during the year ended 31 December 2019. No further impairment is considered necessary for the year due to the improvement of the operating results as a result of the modification of plant and equipment of the project during the year.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

16. SERVICE CONCESSION ARRANGEMENTS *(CONTINUED)*

Receivables under service concession arrangements

	2020 HK$'000	2019 HK$'000
Receivables under service concession arrangements	**2,233,650**	2,035,987
Current portion	**(67,856)**	(63,183)
Non-current portion	**2,165,794**	1,972,804

Details of contract assets which are presented as operating concessions and receivables under service concession arrangements are as follows:

	31 December 2020 HK$'000	31 December 2019 HK$'000	1 January 2019 HK$'000
Operating concessions	**324,338**	143,544	437,902
Receivables under service concession arrangements	**96,438**	89,053	80,374
Total contract assets	**420,776**	232,597	518,276

Contract assets are initially recognised for revenue earned from the provision of construction services for the infrastructures during the period of construction under the service concession arrangements. Pursuant to the service concession agreements, the Group receives no payment from the grantors during the construction period and receives service fees when the relevant solid waste treatment services are rendered. The receivables under service concession arrangements (including the contract assets therein) are not yet due for payment and will be settled by service fees to be received during the operating periods of the service concession arrangements. Amounts billed will then be transferred to trade receivables (note 20). The increase in contract assets in 2020 was the result of the commencement of certain solid waste incineration plants of the Group. The Group's exposure to credit risk is insignificant and the directors of the Company are of the opinion that the ECL of the contract assets is minimal. The Group's trading terms and credit policy with customers are disclosed in note 20 to the financial statements.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

17. OTHER INTANGIBLE ASSETS

	Note	Operating rights HK$'000	Licences HK$'000	Computer software HK$'000	Total HK$'000
31 December 2020					
At 1 January 2020:					
Cost		**119,816**	**24,719**	**2,643**	**147,178**
Accumulated amortisation		**(22,870)**	**(10,274)**	**(1,157)**	**(34,301)**
Net carrying amount		**96,946**	**14,445**	**1,486**	**112,877**
Net carrying amount:					
At 1 January 2020		**96,946**	**14,445**	**1,486**	**112,877**
Additions		**–**	**–**	**521**	**521**
Amortisation provided during the year	6	**(4,747)**	**(882)**	**(200)**	**(5,829)**
Impairment (note (c))	6	**(55,123)**	**–**	**–**	**(55,123)**
Exchange realignment		**2,207**	**808**	**107**	**3,122**
At 31 December 2020		**39,283**	**14,371**	**1,914**	**55,568**
At 31 December 2020:					
Cost		**126,947**	**26,191**	**3,357**	**156,495**
Accumulated amortisation and impairment		**(87,664)**	**(11,820)**	**(1,443)**	**(100,927)**
Net carrying amount		**39,283**	**14,371**	**1,914**	**55,568**
31 December 2019					
At 1 January 2019:					
Cost		121,730	25,114	1,830	148,674
Accumulated amortisation		(18,412)	(9,542)	(832)	(28,786)
Net carrying amount		103,318	15,572	998	119,888
Net carrying amount:					
At 1 January 2019		103,318	15,572	998	119,888
Additions		–	–	852	852
Amortisation provided during the year	6	(4,801)	(892)	(342)	(6,035)
Exchange realignment		(1,571)	(235)	(22)	(1,828)
At 31 December 2019		96,946	14,445	1,486	112,877
At 31 December 2019:					
Cost		119,816	24,719	2,643	147,178
Accumulated amortisation		(22,870)	(10,274)	(1,157)	(34,301)
Net carrying amount		96,946	14,445	1,486	112,877

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

17. OTHER INTANGIBLE ASSETS *(CONTINUED)*

Notes:

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

Name of company as operator	Location	Type of service concession arrangement	Practical processing capacity (tonnes/day)	Service concession period
Taian Beikong	Shandong	BOO	Phase I: 800	30 years from 2008 to 2038
			Phase II: 1,200	Not yet finalised
Beikong Zhangjiagang	Jiangsu	BOO	Phase I: 600	30 years from 2008 to 2038
			Phase II: 300	30 years from 2014 to 2044

Details of the assets included in property, plant and equipment and right-of-use assets of the above service concession arrangements are disclosed in notes 12(c), 12(d) and 14(a) to the financial statements.

(b) At 31 December 2020, the Group was in the process of applying for the completion of final acceptance of the construction of the plant of Beikong Zhangjiagang from the relevant government authorities. The directors of the Company are of the opinion that the Group expected to have no legal barriers in completing the final acceptance of the plant of Beikong Zhangjiagang or subject to any administrative sanctions and the Group is legitimated to operate the plant of Beikong Zhangjiagang.

(c) Details of the impairment of the operating rights are disclosed in note 12(c) to the financial statements.

18. INVESTMENT IN A JOINT VENTURE

	2020 HK$'000	2019 HK$'000
Share of net assets	**6,652**	6,652

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

18. INVESTMENT IN A JOINT VENTURE *(CONTINUED)*

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

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

19. INVENTORIES

	2020 HK$'000	2019 HK$'000
Raw materials – coal and consumables	**43,842**	39,668

20. TRADE AND BILLS RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables	**524,190**	398,002
Bills receivable	**1,190**	–
	525,380	398,002
Impairment (note (c))	**(9,000)**	(8,307)
	516,380	389,695

Notes:

(a) Various companies of the Group have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one to three months. An ageing analysis of the trade and bills receivables is regularly prepared and closely monitored in order to minimise any related credit risk. Trade and bills receivables are non-interest-bearing and the Group does not hold any collateral or other credit enhancements over its trade receivable balances.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

20. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

Notes: *(continued)*

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

	2020	2019
	HK$'000	HK$'000
Within 3 months	**447,419**	317,168
4 to 6 months	**20,764**	33,925
7 to 12 months	**18,418**	18,303
1 to 2 years	**23,377**	13,432
2 to 3 years	**2,738**	4,851
Over 3 years	**3,664**	2,016
At 31 December	**516,380**	389,695

(c) The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2020	2019
	HK$'000	HK$'000
At 1 January	**8,307**	8,340
Impairment losses, net (note 6)	**186**	108
Exchange realignment	**507**	(141)
At 31 December	**9,000**	8,307

(d) An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. 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 forecasts of future economic conditions.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

20. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

Notes: *(continued)*

(d) *(continued)*

Set out below is the information about the credit risk exposure on the Group's trade and bills receivables using a provision matrix:

	ECL rate %	Gross carrying amount HK$'000	ECLs HK$'000
31 December 2020			
Current	**–**	**333,157**	**–**
Past due:			
Less than 3 months	**0.20**	**82,450**	**165**
4 to 6 months	**0.20**	**44,133**	**88**
7 to 12 months	**0.20**	**32,903**	**66**
1 to 2 years	**1.36**	**20,177**	**274**
2 to 3 years	**0.96**	**25**	**–**
Over 3 years*	**67.07**	**12,535**	**8,407**
	4.68	**192,223**	**9,000**
	1.71	**525,380**	**9,000**
31 December 2019			
Current	–	255,352	–
Past due:			
Less than 3 months	0.10	74,657	74
4 to 6 months	0.10	27,283	27
7 to 12 months	0.10	14,291	14
1 to 2 years	1.13	11,014	125
2 to 3 years	1.09	3,846	42
Over 3 years*	69.43	11,559	8,025
	5.82	142,650	8,307
	2.09	398,002	8,307

* Included an impairment loss of HK$8,466,000 (2019: HK$7,990,000) recognised as at 31 December 2020 in respect of specific customers as there was no reasonable expectation for recovering the contractual cash flow.

(e) As at 31 December 2020, the trade receivables of HK$55,660,000 (2019: HK$45,390,000) arising from the provision of solid waste treatment services are pledged to secure a bank loan granted to the Group (note 28(b)).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

21. CONTRACT ASSETS

	31 December 2020 HK$'000	31 December 2019 HK$'000	1 January 2019 HK$'000
Contract assets arising from:			
Waste treatment construction services	**33,505**	42,430	–
Ecological construction services	**366,054**	181,219	69,452
Total contract assets	**399,559**	223,649	69,452

Contract assets are initially recognised for revenue earned from the provision of waste treatment and ecological construction services as the receipt of consideration is conditional or successful completion of construction. All contract assets as at 31 December are expected to be recovered or settled within one year. The increase in contract assets in 2020 and 2019 was the result of the increase in the ongoing provision of construction services during the years. The Group's exposure to credit risk is insignificant and the directors of the Company are of the opinion that the ECLs for the contract assets are minimal.

22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	2020 HK$'000	2019 HK$'000
Prepayments		**99,272**	89,377
Deposits and other receivables	(a)	**67,801**	91,975
Due from fellow subsidiaries	(b)	**7,384**	4,077
Due from non-controlling equity holders	(b)	**6,860**	14,227
		181,317	199,656
Impairment allowance	(c)	**(5,902)**	(5,664)
		175,415	193,992
Current portion		**(175,230)**	(163,097)
Non-current portion		**185**	30,895

Notes:

(a) Deposits and other receivables mainly represent rental deposits and deposits with suppliers. The financial impact of ECLs for deposits and other receivables under HKFRS 9 was insignificant.

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS *(CONTINUED)*

Notes: *(continued)*

(c) The movements in the loss allowance for impairment of deposits and other receivables are as follows:

	2020 HK$'000	2019 HK$'000
At 1 January	**5,664**	5,754
Exchange realignment	**238**	(90)
At 31 December	**5,902**	5,664

(d) Other than the aforementioned impaired other receivables, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to the receivables for which there was no recent history of default and past due amounts. As at 31 December 2020 and 2019, the loss allowance was assessed to be minimal.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Notes	2020 HK$'000	2019 HK$'000
Cash and bank balances			
Placed in banks		**1,305,564**	964,396
Placed in a financial institution	(c)	**33,031**	56,440
		1,338,595	1,020,836
Time deposits		**188,563**	404,796
		1,527,158	1,425,632
Less: Pledged deposits	(d)	**(7,122)**	(8,642)
Cash and cash equivalents		**1,520,036**	1,416,990

Notes:

(a) At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$1,116,326,000 (2019: HK$814,902,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(CONTINUED)*

Notes: *(continued)*

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

(c) At 31 December 2020, HK$33,031,000 (2019: HK$56,440,000) was placed by the Group in Beijing Enterprises Group Finance Co., Ltd. ("BG Finance", a non-wholly-owned subsidiary of BEGCL), which is an authorised financial institution under the China Banking Regulatory Commission (note 39(a)(ii)).

(d) At 31 December 2020, security deposits of HK$7,122,000 (2019: HK$8,642,000) were pledged to the government authorities and a customer for the provision of construction and related services of solid waste treatment plants.

24. SHARE CAPITAL

Shares

	2020	2019
	HK$'000	HK$'000
Issued and fully paid:		
1,500,360,150 (2019: 1,500,360,150) ordinary shares	**2,227,564**	2,227,564

Share options

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

25. SHARE OPTION SCHEME

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

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the number of ordinary shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the ordinary shares of the Company in issue at any time. Any further grant of share options in excess of these limits is subject to shareholders' approval in a general meeting.

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

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

25. SHARE OPTION SCHEME *(CONTINUED)*

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

There was no movement in the share options granted under the Scheme during the years ended 31 December 2020 and 2019. At the end of the reporting period and the date of approval of these financial statements, the Company had 37,620,000 (2019: 37,620,000) share options outstanding under the Scheme, which represented approximately 2.5% of the Company's ordinary shares in issue at that date. The exercise price of the share options is HK$1.25 per share, which is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. The share options are exercisable during the period from 21 June 2011 to 20 June 2021. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 37,620,000 additional ordinary shares of the Company and additional share capital of HK$67,814,000 (before issue expenses).

Subsequent to the end of the reporting period, 6,770,000 share options were forfeited on 3 January 2021 upon the expiry of the 12-month post-retirement exercisable period of a former executive director of the Company.

26. RESERVES

(a) The amounts of the Group's other reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 45 of the financial statements.

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

(c) PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investments as applicable to the Group's PRC subsidiaries. None of the Group's PRC reserve funds as at 31 December 2020 was distributable in the form of cash dividends (2019: Nil).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

27. CONVERTIBLE BONDS

A summary of the movements in the principal amount, and the liability and equity components of the Company's convertible bonds during the years ended 31 December 2020 and 2019 is as follows:

	HK$'000
Principal amount outstanding	
At 1 January 2019, 31 December 2019 and 31 December 2020	**2,202,300**
Liability component	
At 1 January 2019	2,117,717
Imputed interest expenses (note 7)	29,451
At 31 December 2019 and 1 January 2020, classified as non-current liabilities	**2,147,168**
Imputed interest expenses (note 7)	**29,944**
At 31 December 2020, classified as current liabilities	**2,177,112**
Equity component	
At 1 January 2019, 31 December 2019 and 31 December 2020	**147,029**

On 31 October 2016, pursuant to the completion of the acquisition of certain equity interests in companies engaged in the solid waste treatment business from BEHL, the Company issued convertible bonds in the principal amount of HK$2,202,300,000 to Idata as consideration. The convertible bonds have an initial conversion price of HK$1.13 per ordinary share of the Company, bear no interest and will mature on 31 October 2021. Further details of the acquisition are set out in the circular of the Company dated 24 June 2016.

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

28. BANK AND OTHER BORROWINGS

	Notes	2020 HK$'000	2019 HK$'000
Bank loans, secured	(b)	**287,232**	206,781
Other loans, unsecured			
A fellow subsidiary	(c)	**713,619**	717,169
Others	(d)	**51,191**	62,977
		764,810	780,146
Total bank and other borrowings		**1,052,042**	986,927
Analysed into:			
Bank loans repayable:			
Within one year		**51,318**	22,472
In the second year		**69,175**	33,708
In the third to fifth years, inclusive		**160,040**	106,742
Beyond five years		**6,699**	43,859
		287,232	206,781
Other loans repayable:			
Within one year		**114,286**	180,955
In the second year		**67,857**	120,225
In the third to fifth years, inclusive		**167,524**	383,955
Beyond five years		**415,143**	95,011
		764,810	780,146
Total bank and other borrowings		**1,052,042**	986,927
Portion classified as current liabilities		**(165,604)**	(203,427)
Non-current portion		**886,438**	783,500

Notes:

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

(b) At 31 December 2020, the Group's secured bank loans bear interest at the floating loan prime rate of five years or above from the People's Bank of China less 2 to 58.3 basis points (2019: a floating lending rate of five years or above from the People's Bank of China plus a 10% margin) and are secured by the pledge over (i) the Group's buildings with a net carrying amount of HK$282,873,000 (2019: HK$45,322,000) (note 12(a)); (ii) the Group's leasehold land of HK$7,848,000 (2019: HK$20,649,000) (note 14(a)(i)); and (iii) the Group's trade receivables arising from the provision of solid waste treatment service with an aggregate net carrying amount of HK$55,660,000 (2019: HK$45,390,000) (note 20(e)) and are repayable by instalments up to 2035 (2019: up to 2026).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

28. BANK AND OTHER BORROWINGS *(CONTINUED)*

Notes: *(continued)*

(c) At 31 December 2020, the Group's other loans from BG Finance, a fellow subsidiary, bear interest at the floating loan prime rate of five years or above from the People's Bank of China ranging from less 4.4 to plus 10.3 basis points (2019: floating lending rates of one to five years or above from the People's Bank of China ranging from 94% at discount to 103% at premium), and are repayable by instalments up to 2026. Included in other loans from BG Finance, an amount of HK$427,262,000 (2019: HK$410,000,000) is guaranteed by a fellow subsidiary of the Company.

(d) At 31 December 2020, the Group's other loans are repayable on demand and advanced from (i) non-controlling equity holders of HK$25,119,000 (2019: HK$19,101,000), of which HK$5,952,000 (2019: HK$5,618,000) is interest free and HK$19,167,000 (2019: HK$13,483,000) bears interest at 4.35% to 6.525% per annum; and (ii) third parties of HK$26,072,000 (2019: HK43,876,000), bear interest at floating lending rates from the People's Bank of China (2019: HK$15,337,000 were interest free and HK$28,539,000 bore interest at floating lending rates from the People's Bank of China).

29. PROVISION FOR MAJOR OVERHAULS

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

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

	Notes	**2020** **HK$'000**	2019 HK$'000
At 1 January		**7,298**	6,026
Additional provision	6	**1,029**	1,021
Increase in discounted amounts arising from the passage of time	7	**435**	362
Exchange realignment		**521**	(111)
At 31 December		**9,283**	7,298

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

30. DEFERRED INCOME

At 31 December 2020, deferred income of the Group represented government subsidies in respect of the Group's construction of the waste treatment and power generation plants in Mainland China. The subsidies are interest-free and not required to be repaid, and are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

31. DEFERRED TAX

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

	2020 **HK$'000**	2019 HK$'000
Deferred tax assets	**18,307**	7,684
Deferred tax liabilities	**(217,320)**	(238,638)
	(199,013)	(230,954)

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

	Losses available for offsetting against future taxable profits HK$'000	**Fair value adjustments arising from acquisition of subsidiaries** HK$'000	**Temporary differences related to service concession arrangements** HK$'000	**Impairment provision** HK$'000	**Provision for major overhauls** HK$'000	**Net deferred tax assets/ (liabilities)** HK$'000
At 1 January 2019	9,600	(60,981)	(194,813)	(1,382)	1,506	(246,070)
Deferred tax credited/(charged) to profit or loss during the year (note 10)	–	3,864	(21,682)	28,924	334	11,440
Exchange realignment	(151)	915	3,333	(394)	(27)	3,676
At 31 December 2019 and 1 January 2020	**9,449**	**(56,202)**	**(213,162)**	**27,148**	**1,813**	**(230,954)**
Deferred tax credited/(charged) to profit or loss during the year (note 10)	**–**	**20,901**	**(19,106)**	**41,012**	**315**	**43,122**
Exchange realignment	**562**	**(2,102)**	**(13,938)**	**4,170**	**127**	**(11,181)**
At 31 December 2020	**10,011**	**(37,403)**	**(246,206)**	**72,330**	**2,255**	**(199,013)**

At 31 December 2020, deferred tax assets have not been recognised in respect of (i) unused tax losses arising in Hong Kong of approximately HK$132,412,000 (2019: HK$132,412,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose; and (ii) unused tax losses arising in Mainland China of HK$161,974,000 (2019: HK$172,713,000) that will expire in one to five years for offsetting against future taxable profit, as they have arisen in certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

31. DEFERRED TAX *(CONTINUED)*

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

At 31 December 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 (2019: Nil). 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$1,150,481,000 (2019: HK$755,897,000) as at 31 December 2020.

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

32. TRADE PAYABLES

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

	2020	2019
	HK$'000	HK$'000
Billed:		
Less than 3 months	**198,167**	121,620
4 to 6 months	**51,544**	123,154
7 to 12 months	**48,982**	46,522
Over 1 year	**90,186**	90,527
	388,879	381,823
Unbilled	**371,817**	146,147
	760,696	527,970

Included in the Group's trade payables is an amount of HK$61,821,000 (2019: HK$59,517,000) due to a non-controlling equity holder. The balance arising from the transactions carried out in the ordinary course of business of the Group, and is unsecured, interest-free and repayable on credit terms similar to those offered by the non-controlling equity holder to its major customers.

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

33. OTHER PAYABLES AND ACCRUALS

	Notes	**2020 HK$'000**	2019 HK$'000
Other payables	(a)	**82,927**	95,301
Contract liabilities	(b)	**3,962**	18,098
Lease liabilities (note 14(b))		**31,820**	30,571
Accruals		**32,528**	30,053
Due to the immediate holding company	(c)	**491,000**	491,000
Due to fellow subsidiaries	(c)	**1,080,837**	1,023,946
Due to a joint venture	(c)	**4,815**	3,188
Total other payables and accruals		**1,727,889**	1,692,157
Current portion		**(1,707,679)**	(1,672,960)
Non-current portion		**20,210**	19,197

Notes:

(a) Other payables are non-interest-bearing and have an average term of three to six months.

(b) Details of contract liabilities are as follows:

	31 December 2020 HK$'000	31 December 2019 HK$'000	1 January 2019 HK$'000
Short-term advances received from customers in respect of:			
Hazardous and medical waste treatment services	**1,263**	1,383	17,182
Waste treatment construction and related services	**–**	3,556	27,217
Ecological construction and related services	**2,699**	13,082	15,169
Others	**–**	77	1,645
Total contract liabilities	**3,962**	18,098	61,213

The decrease in contract liabilities in 2020 was mainly due to the decrease in short-term advances received from customers in relation to the provision of ecological construction and related services during that year.

(c) The balances with the immediate holding company, the fellow subsidiaries and a joint venture are unsecured, interest-free and repayable on demand. As at 31 December 2020, BEHL and its subsidiaries have undertaken not to demand repayment of the amounts due by the Group to them of HK$3,645,681,000, including the convertible bonds with a principal amount of HK$2,202,300,000 (note 27), until such time when the Group is in a position to repay without impairing its liquidity and financial position.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

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

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

	Beijing Gaoantun		Ha'erbin Shuangqi		Hunan Hengxing		Beifa Jining		Beikong Ecology	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Percentage of equity interest held by non-controlling interests	**15.104%**	15.104%	**20%**	20%	**35%**	35%	**25%**	–	**49%**	49%
Accumulated balances of non-controlling interests as at 1 January	**151,213**	144,185	**32,799**	48,480	**45,499**	42,979	**–**	–	**60,764**	47,671
Capital contribution	**–**	–	**–**	–	**–**	–	**55,281**	–	**–**	–
Profit/(loss) for the year attributable to non-controlling interests	**(6,730)**	9,402	**2,836**	(15,088)	**(2,018)**	3,225	**7,564**	–	**26,094**	14,000
Exchange realignment	**8,538**	(2,374)	**2,121**	(593)	**2,587**	(705)	**3,379**	–	**5,170**	(907)
Accumulated balances of non-controlling interests as at 31 December	**153,021**	151,213	**37,756**	32,799	**46,068**	45,499	**66,224**	–	**92,028**	60,764

The following table illustrates the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	Beijing Gaoantun		Ha'erbin Shuangqi		Hunan Hengxing		Beifa Jining		Beikong Ecology	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue	**226,011**	204,642	**96,615**	77,731	**53,340**	53,742	**236,554**	–	**276,954**	280,101
Cost of sales and total expenses	**(270,569)**	(142,393)	**(82,433)**	(153,172)	**(59,107)**	(44,528)	**(206,300)**	–	**(223,700)**	(251,530)
Profit/(loss) for the year	**(44,558)**	62,249	**14,182**	(75,441)	**(5,767)**	9,214	**30,254**	–	**53,254**	28,571
Current assets	**254,408**	220,906	**86,394**	57,405	**32,248**	23,452	**81,425**	–	**541,898**	369,649
Non-current assets	**804,635**	913,657	**752,963**	694,215	**223,436**	236,793	**342,028**	–	**43,559**	48,022
Current liabilities	**(135,165)**	(192,163)	**(198,204)**	(214,904)	**(34,873)**	(37,474)	**(97,447)**	–	**(380,568)**	(272,151)
Non-current liabilities	**(122,611)**	(141,197)	**(452,371)**	(372,723)	**(89,188)**	(92,580)	**(85,380)**	–	**(17,076)**	(21,512)
Net cash flows from/(used in) operating activities	**129,563**	7,475	**86,319**	(3,507)	**7,479**	6,176	**(37,211)**	–	**41,152**	32,643
Net cash flows from/(used in) investing activities	**(11,988)**	(12,311)	**(41,076)**	(837)	**(1,169)**	(2,483)	**(234,006)**	–	**13,539**	(4,753)
Net cash flows from/(used in) financing activities	**(113,066)**	–	**(30,203)**	6,168	**–**	(11,391)	**280,903**	–	**(37,009)**	30,420
Net increase/(decrease) in cash and cash equivalents	**4,509**	(4,836)	**15,040**	1,824	**6,310**	(7,698)	**9,686**	–	**17,682**	58,310

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	Note	Bank and other borrowings HK$'000	Lease liabilities HK$'000	Convertible bonds HK$'000
At 1 January 2019		963,824	42,779	2,117,717
Changes from financing cash flows		38,698	(12,412)	–
Imputed interest expenses	7	–	–	29,451
Interest expense	7	–	2,121	–
Foreign exchange movement		(15,595)	(1,917)	–
At 31 December 2019 and 1 January 2020		**986,927**	**30,571**	**2,147,168**
New leases		**–**	**14,908**	**–**
Changes from financing cash flows		**6,012**	**(14,971)**	**–**
Imputed interest expenses	7	**–**	**–**	**29,944**
Interest expense	7	**–**	**1,528**	**–**
Foreign exchange movement		**59,103**	**(216)**	**–**
At 31 December 2020		**1,052,042**	**31,820**	**2,177,112**

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 HK$'000	2019 HK$'000
Within operating activities	**7,475**	9,719
Within financing activities	**14,971**	12,412
	22,446	22,131

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

36. CONTINGENT LIABILITIES

As disclosed in notes 12, 16 and 17 to the financial statements, the final acceptance of the construction of certain waste incineration plants has not been obtained from the relevant government authorities and the Group is still in the process of applying for certain permits in relation to their operation. According to the relevant PRC Law, the Group may be liable to administrative sanctions to be charged by the relevant government authorities due to the above matters. Nevertheless, the Company is of the view that the non-compliance incidents, individually and in aggregate, would have no material adverse impact on the operations and financial position of the Group.

Save as disclosed above, at 31 December 2020, the Group did not have any significant contingent liabilities.

37. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loan and the provision of construction and related services of solid waste treatment plants are included in notes 12(a), 14(a)(i), 20(e), 23(d) and 28(b) to the financial statements.

38. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2020 **HK$'000**	2019 HK$'000
Contracted, but not provided for:		
Service concession arrangements on a BOO basis	**59,232**	51,188
Service concession arrangements on a BOT basis	**978,444**	55,281
	1,037,676	106,469

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

39. RELATED PARTY DISCLOSURES

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

Name of related party	Nature of transactions	Notes	2020 HK$'000	2019 HK$'000
Fellow subsidiaries:				
Hong Chuang	Rental income#	(i)	**2,894**	2,927
BG Finance	Interest income#	(ii)	**244**	312
	Interest expense	(iii)	**32,719**	31,018

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

Notes:

(i) The rental income received from Hong Chuang in respect of the Hong Chuang Building was mutually agreed between the parties under the property escrow agreement dated 25 October 2018 and was determined with reference to the prevailing market rent generally applicable to similar properties in the market. Further details of the transaction are set out in the announcement of the Company dated 25 October 2018.

(ii) The interest received from BG Finance was mutually agreed between the parties under the deposit services master agreement dated 27 December 2017, pursuant to which the Group may, in its ordinary and usual course of business, place and maintain deposits with BG Finance on normal commercial terms from time to time for the period from 1 January 2018 to 31 December 2020. The deposit rate will not be lower than (i) the benchmark interest rate prescribed by the People's Bank of China; (ii) the interest rates offered by commercial banks in Hong Kong and the PRC to the Group; and (iii) the interest rates offered by BG Finance to other members of BEGCL for the same type of deposits at the same period; and the cumulative daily outstanding deposit balance in Hong Kong dollars equivalent placed by the Group with BG Finance (including any interest accrued thereon) during the term of the agreement will not exceed HK$73,800,000. Further details of the transactions are set out in the announcement of the Company dated 27 December 2017.

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

39. RELATED PARTY DISCLOSURES *(CONTINUED)*

(b) Outstanding balances with related parties

(i) Details of the Group's balances with the immediate holding company, fellow subsidiaries, a joint venture and non-controlling equity holders included in prepayments, other receivables and other assets, bank and other borrowings, trade payables and other payables and accruals are disclosed in notes 22, 28, 32 and 33 to the financial statements, respectively.

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

(c) Compensation of key management personnel of the Group

	2020 **HK$'000**	2019 HK$'000
Short term employee benefits	**12,725**	12,591
Post-employment benefits	**145**	610
Total compensation paid to key management personnel	**12,870**	13,201

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

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

The Company is a state-owned enterprise of the PRC government and is subject to the control of the Beijing SASAC and the ultimate control of the PRC government. The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the year, the Group had transactions with Other SOEs including, but not limited to, bank deposits and borrowings and utilities consumptions. The directors consider that the transactions with Other SOEs were activities in the ordinary course of the Group's businesses, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

40. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group and the Company as at 31 December 2020 and 2019 were loans and receivables and financial liabilities stated at amortised cost, respectively.

41. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

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

(a) Interest rate risk

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

		Effective interest rate
	HK$'000	%
31 December 2020		
Floating rate:		
Pledged deposits	**7,122**	**0.28**
Bank balances	**1,331,929**	**0.66**
Bank and other borrowings	**1,034,304**	**4.42**
Fixed rate:		
Time deposits	**188,107**	**1.23**
Other borrowings	**17,738**	**–**
31 December 2019		
Floating rate:		
Pledged deposits	8,642	3.00
Bank balances	1,018,140	0.58
Bank and other borrowings	965,972	4.52
Fixed rate:		
Time deposits	398,850	1.69
Other borrowings	20,955	–

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

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

(b) Foreign currency risk

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

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

	Increase/ (decrease) in RMB rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
	%	HK$'000	HK$'000
2020			
If HK$ weakens against RMB	**5**	**19,123**	**267,807**
If HK$ strengthens against RMB	**(5)**	**(19,123)**	**(267,807)**
2019			
If HK$ weakens against RMB	5	17,088	192,083
If HK$ strengthens against RMB	(5)	(17,088)	(192,083)

(c) Credit risk

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

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

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

(c) Credit risk *(continued)*

***Maximum exposure and year-end staging** (continued)*

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	**Stage 2** HK$'000	**Stage 3** HK$'000	**Simplified approach** HK$'000	**Total** HK$'000
31 December 2020					
Trade and bills receivables*	**–**	**–**	**–**	**525,380**	**525,380**
Receivables under service concession arrangements	**2,233,650**	**–**	**–**	**–**	**2,233,650**
Contract assets*	**–**	**–**	**–**	**399,559**	**399,559**
Financial assets included in prepayments, other receivables and other assets					
– Normal#	**76,143**	**–**	**–**	**–**	**76,143**
Pledged deposits					
– Not yet past due	**7,122**	**–**	**–**	**–**	**7,122**
Cash and cash equivalents					
– Not yet past due	**1,520,036**	**–**	**–**	**–**	**1,520,036**
	3,836,951	**–**	**–**	**924,939**	**4,761,890**
31 December 2019					
Trade receivables*	–	–	–	398,002	398,002
Receivables under service concession arrangements	2,035,987	–	–	–	2,035,987
Contract assets*	–	–	–	223,649	223,649
Financial assets included in prepayments, other receivables and other assets					
– Normal#	110,279	–	–	–	110,279
Pledged deposits					
– Not yet past due	8,642	–	–	–	8,642
Cash and cash equivalents					
– Not yet past due	1,416,990	–	–	–	1,416,990
	3,571,898	–	–	621,651	4,193,549

* For trade and bills receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix of trade and bills receivables is disclosed in note 20 to the financial statements. The Group's exposure to credit risk of contract assets is significant and the ECL is minimal.

The credit quality of the financial assets (other than contract assets) included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

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

(d) Liquidity risk

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

The maturity profile of the Group's financial liabilities (other than receipts in advance and contract liabilities) as at 31 December 2020 and 2019, based on the contractual undiscounted payments, is as follows:

	On demand or within 1 year HK$'000	1 to 2 years HK$'000	3 to 5 years HK$'000	Beyond 5 years HK$'000	Total HK$'000
31 December 2020					
Bank and other borrowings	**168,921**	**146,438**	**401,013**	**567,260**	**1,283,632**
Convertible bonds	**2,202,300**	**–**	**–**	**–**	**2,202,300**
Trade payables	**760,696**	**–**	**–**	**–**	**760,696**
Lease liabilities	**18,423**	**13,682**	**8,038**	**–**	**40,143**
Other payables and accruals (excluding lease liabilities)	**115,456**	**–**	**–**	**–**	**115,456**
Due to the immediate holding company	**491,000**	**–**	**–**	**–**	**491,000**
Due to fellow subsidiaries	**1,080,837**	**–**	**–**	**–**	**1,080,837**
Due to a joint venture	**4,815**	**–**	**–**	**–**	**4,815**
	4,842,448	**160,120**	**409,051**	**567,260**	**5,978,879**
31 December 2019					
Bank and other borrowings	207,675	165,298	639,761	155,148	1,167,882
Convertible bonds	–	2,202,300	–	–	2,202,300
Trade payables	527,970	–	–	–	527,970
Lease liabilities	14,122	6,322	14,666	–	35,110
Other payables and accruals (excluding lease liabilities)	125,354	–	–	–	125,354
Due to the immediate holding company	491,000	–	–	–	491,000
Due to fellow subsidiaries	1,023,946	–	–	–	1,023,946
Due to a joint venture	3,188	–	–	–	3,188
	2,393,255	2,373,920	654,427	155,148	5,576,750

As at 31 December 2020, BEHL has undertaken not to demand repayment of the amounts due by the Group to Idata and a fellow subsidiary of the Company of HK$3,645,681,000 (2019: HK$1,389,876,000) until such time when the Group is in a position to repay without impairing its liquidity and financial position.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

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

(e) Capital management

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

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

The Group monitors capital using the gearing ratio, which is calculated based on net debt and total equity. Net debt is calculated as total bank and other borrowings and convertible bonds (as shown in the consolidated statement of financial position) less cash and cash equivalents. The gearing ratios at 31 December 2020 and 2019 were as follows:

	2020 **HK$'000**	2019 HK$'000
Bank and other borrowings	**1,052,042**	986,927
Convertible bonds	**2,177,112**	2,147,168
Total debt	**3,229,154**	3,134,095
Less: Cash and cash equivalents	**(1,520,036)**	(1,416,990)
Net debt	**1,709,118**	1,717,105
Total equity	**3,591,565**	3,110,965
Gearing ratio	**47.6%**	55.2%

43. OTHER FINANCIAL INFORMATION

The net current liabilities and total assets less current liabilities of the Group as at 31 December 2020 amounted to HK$2,147,086,000 (2019: HK$177,862,000) and HK$4,875,442,000 (2019: HK$$6,456,792,000), respectively.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

44. 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 **HK$'000**	2019 HK$'000
ASSETS		
Non-current assets:		
Office equipment and motor vehicles	**286**	367
Investment property	**48,571**	47,191
Intangible assets	**55**	59
Investments in subsidiaries	**4,318,599**	4,093,693
Total non-current assets	**4,367,511**	4,141,310
Current assets:		
Prepayments, other receivables and other assets	**328,264**	226,979
Cash and cash equivalents	**68,187**	378,645
Total current assets	**396,451**	605,624
TOTAL ASSETS	**4,763,962**	4,746,934
EQUITY AND LIABILITIES		
Equity:		
Share capital	**2,227,564**	2,227,564
Equity component of convertible bonds	**147,029**	147,029
Other reserves (note)	**(307,298)**	(292,315)
TOTAL EQUITY	**2,067,295**	2,082,278
Non-current liabilities:		
Convertible bonds	**–**	2,147,168
Current liabilities:		
Other payables and accruals	**519,555**	517,488
Convertible bonds	**2,177,112**	–
Total current liabilities	**2,696,667**	517,488
TOTAL LIABILITIES	**2,696,667**	2,664,656
TOTAL EQUITY AND LIABILITIES	**4,763,962**	4,746,934

Ke Jian
Director

Sha Ning
Director

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2020

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

Note:

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

	Share option reserve HK$'000	**Capital reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2019	20,789	12,059	(287,461)	(254,613)
Total comprehensive loss for the year	–	–	(37,702)	(37,702)
At 31 December 2019 and 1 January 2020	**20,789**	**12,059**	**(325,163)**	**(292,315)**
Total comprehensive loss for the year	**–**	**–**	**(14,983)**	**(14,983)**
At 31 December 2020	**20,789**	**12,059**	**(340,146)**	**(307,298)**

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2021.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
CONTINUING OPERATIONS					
Revenue	**1,790,611**	1,384,113	1,270,141	1,088,865	402,467
Profit before tax from continuing operations	**149,337**	246,805	324,916	297,885	87,651
Income tax	**6,048**	(26,554)	(43,528)	(81,692)	(27,203)
Profit for the year from continuing operations	**155,385**	220,251	281,388	216,193	60,448
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**–**	–	–	–	65,740
Profit for the year	**155,385**	220,251	281,388	216,193	126,188
Attributable to:					
Members of the Company	**129,027**	222,232	265,008	190,308	130,101
Non-controlling interests	**26,358**	(1,981)	16,380	25,885	(3,913)
	155,385	220,251	281,388	216,193	126,188

	As at 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**9,752,553**	8,939,578	9,036,286	9,282,516	8,421,733
Total liabilities	**(6,160,988)**	(5,828,613)	(6,081,007)	(6,480,423)	(6,076,752)
Net assets	**3,591,565**	3,110,965	2,955,279	2,802,093	2,344,981
Equity attributable to:					
Members of the Company	**3,194,495**	2,817,710	2,655,434	2,553,201	2,137,083
Non-controlling interests	**397,070**	293,255	299,845	248,892	207,898
	3,591,565	3,110,965	2,955,279	2,802,093	2,344,981