



北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 371)

BEIJING ENTERPRISES WATER
GROUP LIMITED

Annual
Report

2019



CONTENTS

Corporate Information	2
Group Structure	3
Chairman's Statement	4
Management Discussion and Analysis	8
Corporate Governance Report	31
Directors and Senior Management	45
Report of the Directors	50
Independent Auditor's Report	78
Consolidated Statement of Profit or Loss	85
Consolidated Statement of Comprehensive Income	86
Consolidated Statement of Financial Position	87
Consolidated Statement of Changes in Equity	89
Consolidated Statement of Cash Flows	91
Notes to Financial Statements	96
Five-Year Financial Summary	259

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric

AUDITORS

Ernst & Young

STOCK CODE

371

WEBSITE

www.bewg.net

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

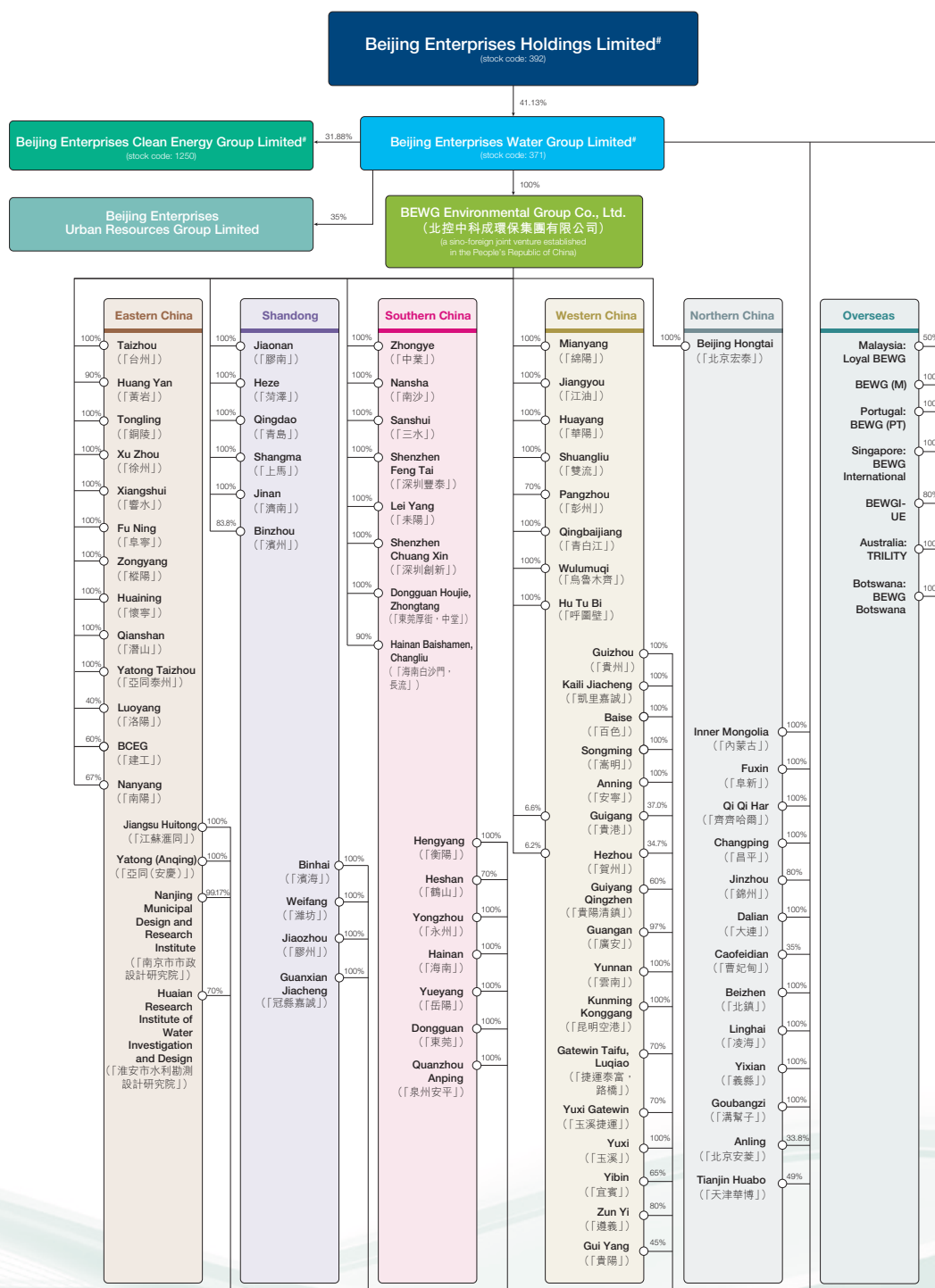
In Hong Kong:
Bank of China (Hong Kong) Limited
Bank of Communications Co., Limited
DBS Bank Ltd., Hong Kong Branch
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Mizuho Bank, Ltd.

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



GROUP STRUCTURE

31 December 2019



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

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

CHAIRMAN'S STATEMENT

Dear shareholders,

In 2019, the global economy saw a slowdown in growth amid market complexities, while China's economic development remained stable in general with moderate improvement and the supply-side structural reform has been in progress. Under such background, Beijing Enterprises Water Group Limited (the "Company", together with its subsidiaries, collectively referred to as the "Group" or "BEWG") vigorously explored innovative business models, headed towards an asset-light enterprise and drove the growth of both core and emerging businesses according to its yearly business goals and work tasks, and hence delivered a satisfactory growth in operating results.

PERFORMANCE REVIEW

For the year ended 31 December 2019, the Group recorded revenue of HK\$28,192.5 million, which grew by 15% year-on-year. Profit attributable to shareholders of the Company amounted to HK\$4,925.7 million, which increased by 10% year-on-year. Basic earnings per share for the year was HK49.77 cents. In recognition of the continuous support of the shareholders to the Company, the board of directors of the Company (the "Board") resolved to make a final cash distribution of HK7.8 cents per share to the shareholders.

In 2019, the Chinese government continued to conduct in-depth inspections focusing on key issues in specific regions and industries. The Ministry of Ecology and Environment has implemented the Action Plan for Prevention and Control of Water Pollution (《水污染防治行動計劃》) and pushed ahead with other action plans or implementation proposals including the protection and restoration of the Yangtze River, the treatment of black and odorous water in cities, the comprehensive renovation of the Bohai Sea, the pollution treatment in rural areas, thereby offering ample room for the development of the ecological treatment sector. Benefitting from the continuous efforts in building an ecological civilisation in China, the Group continued to grow and strengthen the two core businesses namely urban water services and water environment comprehensive renovation. The urban water service business has been progressing in a stable manner. The Group's total daily design capacity was 39,388,882 tons as at 31 December 2019 with a net increase in daily treatment capacity of 2,564,249 tons. The water environment comprehensive renovation business has focused on certain major cities and a diversified asset-light model has been applied to expand comprehensive renovation projects.



CHAIRMAN'S STATEMENT

The Group established a catchment company and pioneered a new co-operation model with China Three Gorges Corporation to set up the Yangtze Eco-Environmental Protection Industry Alliance* (長江生態環保產業聯盟) and took the lead in setting up a joint venture, which won the bid for the public-private-partnership (“PPP”) project of the comprehensive renovation of the urban sewage system of the city centre of Yueyang. Such project is among the first major show projects for the protection of the Yangtze River and serves a professional role in the national strategy for the integration in the Yangtze River Delta Region.

As to the emerging businesses, the efforts of the strategic integration of hazardous waste treatment and environmental and hygiene services under the urban resource business have been effective. The clean energy business has been making steady progress. The overseas presence has been expanded to Botswana and Angola in Africa. The Group has also actively responded to the national strategy of rural revitalisation by promoting the exemplary role of its rural sewage treatment projects in Yixing and Minning in the industry taking the advantage of the favourable policy of rural pollution treatment.

For the purpose of effectively preventing systematic risk in finance, the Chinese government has carried out its deleveraging, economic restructuring, risk prevention and maintaining stability activities to ensure stable market operation in 2019. With tightening financial regulations, corporations are under greater pressure for financing. Policies in relation to PPP projects have limited the scope to develop local PPP projects. The homogeneous competition in the industry has led to greater rivalry among market players.

To better cope with the new development and challenges in the environmental industry, the Group has increased its efforts in building “dual platforms” for asset management and operational management according to its comprehensive and innovative strategies. Being persistent towards an asset-light enterprise and supporting the brand with technology-based operations, the Group endeavours to enhance the core competence of its operations and pursue quality development with an asset-light model.

CORPORATE MANAGEMENT AND CONTROL

In 2019, the Group reinforced its standardised organisational structure and established a system for centralised management to promote standardisation in three major areas, namely organisation, job positions and projects. A central database was set up and the Group's management language was unified with 3 white papers on data dictionary covering organisation, finance, performance target, risk management, auditing, administration and integration, technology and other topics.

With a view to boosting the capabilities of its operations, the Group has embarked on its major annual projects to restructure its performance system, revitalise the organisation, improve organisational efficiency and improve supply chain management. The approach to management and control has completely changed from interventional to strategic in order to secure growth drivers.

* For identification purpose only

CHAIRMAN'S STATEMENT

SUSTAINABLE DEVELOPMENT

In 2020, the Group will firmly grasp the asset-light strategic transformation. Based on comprehensive innovation and ecological strategies, the Group will position itself as a comprehensive with whole industry chain, and leading professional integrated water environment service provider. Our core businesses together with emerging businesses are developing rapidly and steadily, and striving to achieve a second growth curve.

With respect to environmental policies, the Group actively participates in the restoration of the Yangtze River to protect the environment as well as the treatment and improvement of black and odorous water in cities. In order to sustain professional environment and building a beautiful China, we contributed to the revitalization of rural areas, and the integrated management and control of networks for water plants along rivers and lakes.

With respect to market selection, the investment focused on “high-yield, low-consumption, low-risk and future-oriented” advantage areas and high-quality projects, increased the expansion of urban-level projects, and vigorously opened new tracks such as municipal pipeline networks, water supply business and smart city construction.

With respect to resource allocation, human and capital resources will be particularly invested in advantageous regions and sectors and competitive resources will be deployed mainly to quality projects.

With respect to cash flow management, we will continue to improve the efficiency of fund use, strengthen the management of accounts receivable, increase the rigidity of capital budgets, and implement full-cycle monitoring of cash flow conditions in investment, construction, operation and procurement.

With respect to building operational capacity, the Group will emphasize on the adoption of a high-efficiency operation and standardisation management model. Efforts will be put in the study and application of operational technology and the continuous establishment of an operational excellence enterprise, so as to enhance the quality of the asset of its existing projects, the products and services and the successful implementation of the Group's dual-platform strategy with operational excellence.

The positive treasury policy and stable monetary policy of the Chinese government will continue in 2020 as the scope of tax and administrative fee reduction has been expanded. The promulgation and implementation of policies, including the Regulation on Government Investment (《政府投資條例》) and the Implementation Comments on Promoting the Development of Government and Social Capital Cooperation (《關於推進政府和社會資本合作規範發展的實施意見》) will provide protection of the operation of PPP projects in compliance with those policies.

In face of the challenges brought by the serious outbreak of the novel coronavirus pneumonia, we are confident that we are capable of ensuring the resumption of work and production in a safe, orderly and precise manner. We will use our best endeavour to prevent and control the epidemic and achieve all of the predetermined business goals.

BEWG is fully aware of the importance of its staff, customers and joint venture partners to its sustainable and stable growth. The Group strives in concert with its staff and works closely with its joint venture partners in order to deliver quality services to its customers, with an ultimate aim to enabling sustainable business development.



CHAIRMAN'S STATEMENT

FUTURE DEVELOPMENT

2020 is the year when a moderately prosperous society has been fully established and the “Thirteenth Five-Year Plan” ends. It will also be a crucial year for the fight against pollution. Environmental protection industry will be in a predictable continuous growth cycle in terms of national industrial status, policy support, progress of market mechanism reform, and activity of industrial mergers and acquisitions.

The Group will adhere to high-quality development and continue to focus on the development strategy of building asset management platform and operation management platform. Taking comprehensive and continuous innovation as the first driving force, we continue to grow and strengthen the two core businesses namely urban water services and water environment comprehensive renovation. While meeting the predetermined yearly goals and achieving sustainable growth, the Group will dedicate to enhance the overall ecological value of the industry, and promote the construction of a community of shared future for the water environment globally.

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

Li Yongcheng
Chairman

30 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year attributable to shareholders of the Company increased by 10% to HK\$4,925.7 million. Revenue increased by 15% to HK\$28,192.5 million as a result of increase in revenue contribution from water treatment services and construction services for the water environmental renovation.

1. FINANCIAL HIGHLIGHTS

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

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



MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

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

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

[§] Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$192.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue HK\$'M	%	GP ratio %	Profit attributable to shareholders of the Company HK\$'M		%
1. Water treatment services						
Sewage and reclaimed water treatment services						
China						
– Subsidiaries	4,276.1	17%	55%	1,894.0		
– Joint ventures and associates				146.3		
				2,040.3		30%
Overseas						
– Subsidiaries	368.4	2%	24%	58.7		1%
	4,644.5	19%		2,099.0		31%
Water distribution services						
China						
– Subsidiaries	1,839.3	8%	50%	590.7	9%	
– Joint ventures				132.8	2%	
				723.5	11%	
Overseas						
– Subsidiaries	502.6	2%	33%	108.3	2%	
– Joint ventures				17.5	–	
				125.8	2%	
	2,341.9	10%		849.3	13%	
Subtotal	6,986.4	29%		2,948.3	44%	



MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%
2. Construction services for the water environmental renovation					
Construction services for comprehensive renovation projects					
– Projects with completion rate more than 10% [§]	6,606.9	27%	24%	1,293.0	19%
– Interest income	–	–	–	105.9	2%
	6,606.9	27%	24%	1,398.9	21%
Construction of BOT water projects	8,698.6	35%	25%	1,654.1	24%
Subtotal	15,305.5	62%		3,053.0	45%
3. Technical services and sale of machineries for the water environmental renovation					
	2,305.0	9%	60%	773.0	11%
Business results	24,596.9	100%		6,774.3	100%
Others [#]				(2,303.0)	
Total				4,471.3	

[#] Others included head office and other corporate expense, net, of HK\$359.9 million, share of profit of associates of HK\$412.2 million, equity-settled share option expense of HK\$4.7 million, finance costs of HK\$2,104.6 million and profit attributable to holders of perpetual capital instruments of HK\$246.0 million. Others represented items that cannot be allocated to the operating segments.

[§] Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$113.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the year ended 31 December 2019 and 2018 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	2019 HK\$'M	2018 HK\$'M	Increase/(Decrease) HK\$'M	%	2019 HK\$'M	2018 HK\$'M	Increase/(Decrease) HK\$'M	%
1. Water treatment services								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	4,784.7	4,276.1	508.6	12%	2,110.6	1,894.0	216.6	11%
– Joint ventures and associates					265.9	146.3	119.6	82%
					2,376.5	2,040.3	336.2	16%
<i>GP ratio</i>	55%	55%		–				
Overseas								
– Subsidiaries	357.1	368.4	(11.3)	(3)%	51.2	58.7	(7.5)	(13)%
<i>GP ratio</i>	25%	24%		1%				
	5,141.8	4,644.5	497.3	11%	2,427.7	2,099.0	328.7	16%
Water distribution services								
China								
– Subsidiaries	2,010.4	1,839.3	171.1	9%	695.5	590.7	104.8	18%
– Joint ventures					139.5	132.8	6.7	5%
					835.0	723.5	111.5	15%
<i>GP ratio</i>	51%	50%		1%				
Overseas								
– Subsidiaries	588.3	502.6	85.7	17%	145.5	108.3	37.2	34%
– Joint ventures					31.7	17.5	14.2	81%
					177.2	125.8	51.4	41%
<i>GP ratio</i>	36%	33%		3%				
	2,598.7	2,341.9	256.8	11%	1,012.2	849.3	162.9	19%
Subtotal	7,740.5	6,986.4	754.1	11%	3,439.9	2,948.3	491.6	17%



MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the year ended 31 December 2019 and 2018 is set out in details below: *(Continued)*

	Revenue				Profit attributable to shareholders of the Company			
	2019 HK\$'M	2018 HK\$'M	Increase/(Decrease) HK\$'M	%	2019 HK\$'M	2018 HK\$'M	Increase/(Decrease) HK\$'M	%
2. Construction services for the water environmental renovation								
Construction services for comprehensive renovation projects								
– Projects with completion rate more than 10%	7,399.7	6,606.9	792.8	12%	1,661.0	1,293.0	368.0	28%
– Interest income	–	–	–	–	206.6	105.9	100.7	95%
	7,399.7	6,606.9	792.8	12%	1,867.6	1,398.9	468.7	34%
GP ratio	30%	24%		6%				
Construction of BOT water projects	10,477.8	8,698.6	1,779.2	20%	1,888.3	1,654.1	234.2	14%
GP ratio	25%	25%		–				
Subtotal	17,877.5	15,305.5	2,572.0	17%	3,755.9	3,053.0	702.9	23%
3. Technical services and sale of machineries for the water environmental renovation								
GP ratio	2,574.5	2,305.0	269.5	12% (9)%	840.5	773.0	67.5	9%
GP ratio	51%	60%						
Business results	28,192.5	24,596.9	3,595.6	15%	8,036.3	6,774.3	1,262.0	19%
Others					(3,110.6)	(2,303.0)	(807.6)	35%
Total					4,925.7	4,471.3	454.4	10%

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW

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

2.1 Water treatment services

As at 31 December 2019, the Group entered into service concession arrangements and entrustment agreements for a total of 1,252 water plants including 1,058* sewage treatment plants, 162 water distribution plants, 30 reclaimed water treatment plants and 2 seawater desalination plants. Total daily design capacity for new projects secured for the year was 4,131,789 tons including Build-Operate-Transfer ("BOT") projects of 220,664 tons, Public-Private Partnership ("PPP") projects of 2,385,775 tons, entrustment operation projects of 989,050 tons, and 536,300 tons through mergers and acquisitions.

Due to different reasons such as expiration of projects, the Group exited projects with aggregate daily design capacity of 1,567,540 tons during the year. As such, the net increase in daily design capacity of the year was 2,564,249 tons. As at 31 December 2019, total daily design capacity was 39,388,882 tons.

* During the year, the Group entered into service concession arrangements for 203 town-size sewage treatment plants with aggregate daily capacity of 11,025 tons.



MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

Analysis of projects on hand is as follows:

	Sewage treatment	Reclaimed water treatment	Water distribution	Seawater desalination	Total
<i>(Tons)</i>					
China					
In operation	13,352,487	896,700	7,865,194	–	22,114,381
Not yet commenced operation/ Not yet transferred	9,354,029	1,146,500	4,989,800	50,000	15,540,329
Subtotal	22,706,516	2,043,200	12,854,994	50,000	37,654,710
Overseas					
In operation	79,958	266,750	1,087,464	300,000	1,734,172
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	79,958	266,750	1,087,464	300,000	1,734,172
Total	22,786,474	2,309,950	13,942,458	350,000	39,388,882
<i>(Number of water plants)</i>					
China					
In operation	499	15	106	–	620
Not yet commenced operation/ Not yet transferred	524	11	22	1	558
Subtotal	1,023	26	128	1	1,178
Overseas					
In operation	35	4	34	1	74
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	35	4	34	1	74
Total	1,058	30	162	2	1,252

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

	Number of plants	Design capacity (Tons/Day)	Actual processing volume during the year* (Tons (M))	Revenue (HK\$'M)	Profit attributable to shareholders of the Company (HK\$'M)
Sewage and reclaimed water treatment services:					
Mainland China:					
– Southern China	219	3,637,140	1,198.6	1,105.6	650.4
– Western China	100	1,945,000	545.0	825.4	377.4
– Shandong	37	1,789,000	481.3	657.8	357.7
– Eastern China	78	4,135,500	1,228.5	1,284.8	550.2
– Northern China	80	2,742,547	783.5	911.1	440.8
	514	14,249,187	4,236.9	4,784.7	2,376.5
Overseas	39	346,708	109.1	357.1	51.2
Subtotal	553	14,595,895	4,346.0	5,141.8	2,427.7
Water distribution services:					
Mainland China	106	7,865,194	1,640.5	2,010.4	835.0
Overseas [§]	35	1,387,464	156.9	588.3	177.2
Subtotal	141	9,252,658	1,797.4	2,598.7	1,012.2
Total	694	23,848,553	6,143.4	7,740.5	3,439.9

* Excluded entrustment operation contracts

§ Included a seawater desalination plant



MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.1 Sewage and reclaimed water treatment services

2.1.1a Mainland China

As at 31 December 2019, the Group had 499 sewage treatment plants and 15 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached to 13,352,487 tons (31 December 2018: 12,031,550 tons) and 896,700 tons (31 December 2018: 809,200 tons) respectively. The average daily processing volume is 11,960,252 tons and average daily treatment rate is 87%. The actual average contracted tariff charge of water treatment was approximately RMB1.17 per ton (31 December 2018: RMB1.10 per ton) for water plants. The actual aggregate processing volume for the year was 4,236.9 million tons, of which 3,772.6 million tons was contributed by subsidiaries and 464.3 million tons was contributed by joint ventures. Total revenue for the year was HK\$4,784.7 million. Net profit attributable to shareholders of the Company was HK\$2,376.5 million, of which HK\$2,110.6 million was contributed by subsidiaries and HK\$265.9 million was contributed by joint ventures and associates. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province, Fujian Province and Shaanxi Province. As at 31 December 2019, there were 219 sewage treatment plants with total daily design capacity of 3,637,140 tons, representing an increase of 178,640 tons or 5% as compared with last year. The actual aggregate processing volume for the year amounted to 1,198.6 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$1,105.6 million and HK\$650.4 million respectively during the year.



MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

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

2.1.1a Mainland China *(Continued)*

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 31 December 2019, there were 100 sewage treatment plants with total daily design capacity of 1,945,000 tons, representing an increase of 122,000 tons per day or 7% as compared with last year. The actual processing volume for the year was 545.0 million tons. The operating revenue of HK\$825.4 million was recorded during the year. Profit attributable to shareholders of the Company amounted to HK\$377.4 million.

Shandong

There were 37 plants in Shandong region. The total daily design capacity of Shandong region is 1,789,000 tons, representing an increase of 287,000 tons per day or 19% as compared with last year. The actual processing volume for the year was 481.3 million tons contributing operating revenue of HK\$657.8 million during the year. Profit attributable to shareholders of the Company was HK\$357.7 million.

Eastern China

There were 78 water plants in Eastern China which were mainly located in Zhejiang Province, Jiangsu Province and Anhui Province. As at 31 December 2019, the total daily design capacity of Eastern China had increased by 297,750 tons to 4,135,500 tons or 8% as compared with last year. The actual processing volume for the year amounted to 1,228.5 million tons and operating revenue was HK\$1,284.8 million during the year. Profit attributable to shareholders of the Company was HK\$550.2 million.



Northern China

Currently, the Group has 80 plants under operation in Northern China. They are mainly located in Liaoning Province and Beijing. The daily design capacity of Northern China had increased by 523,047 tons to 2,742,547 tons or 24% as compared with last year. The projects achieved actual processing volume of 783.5 million tons for the year. The operating revenue was HK\$911.1 million during the year. Profit attributable to shareholders of the Company was HK\$440.8 million.



MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

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

2.1.1b Overseas:

As at 31 December 2019, the Group had 35 sewage treatment plants and 4 reclaimed water plants in Portugal, Singapore and Australia. Total daily design sewage treatment capacity in operation was 346,708 tons. The actual processing volume for the year is 109.1 million tons. Total revenue for the year was HK\$357.1 million. Profit attributable to shareholders of the Company was HK\$51.2 million.

2.1.2 Water distribution services

2.1.2a Mainland China:

As at 31 December 2019, the Group had 106 water distribution plants in operation. Total daily design capacity in operation was 7,865,194 tons (31 December 2018: 6,715,600 tons). The plants were located in Guizhou Province, Fujian Province, Guangdong Province, Hunan Province, Hebei Province, Shandong Province, Henan Province, Guangxi Province and Inner Mongolia Autonomous Region. The actual average contracted tariff charge of water distribution is approximately RMB2.09 per ton (2018: RMB2.07 per ton). The aggregate actual processing volume is 1,640.5 million tons, of which 940.0 million tons was contributed by subsidiaries, which recorded revenue of HK\$2,010.4 million and 700.5 million tons was contributed by joint ventures. Imputed interest income of HK\$2.1 million was recognised for the receivables under service concession arrangement of Plant No. 9 in Beijing. Profit attributable to shareholders of the Company was HK\$835.0 million, of which profit of HK\$695.5 million was contributed by subsidiaries and a profit of HK\$139.5 million in aggregate was contributed by joint ventures.



2.1.2b Overseas:

As at 31 December 2019, the Group had 34 water distribution plants and a sea desalination plant which supplies drinking water in Portugal and Australia. Total daily design capacity in operation was 1,387,464 tons. The actual processing volume for the year is 156.9 million tons of which 89.3 million tons was contributed by subsidiaries and 67.6 million tons was contributed by joint ventures. Total revenue for the year was HK\$588.3 million. Profit attributable to shareholders of the Company was HK\$177.2 million.



MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.2 Construction services for the water environmental renovation

2.2.1 Construction services for comprehensive renovation projects

The Group had 25 comprehensive renovation projects under construction during the year. The projects mainly located in Zhejiang Hangzhou, Chengdu Jianyang, Malaysia Terengganu, Inner Mongolia, Sichuan Luzhou and Hebei Hengshui. Last year, the Group had 23 comprehensive renovation projects under construction in Foshan Sanshui, Sichuan Suining, Inner Mongolia, Chengdu Jianyang, Guangdong Heshan, Yunnan Ling Cang, Malaysia Terengganu, Sichuan Luzhou and Beijing Tongzhou.

Revenue from comprehensive renovation projects increased by HK\$792.8 million from last year of HK\$6,606.9 million to HK\$7,399.7 million this year. Revenue increased was mainly due to the increase in construction work for Zhejiang Hangzhou during the year and new project constructed in Hebei Hengshui.

According to the construction contracts, the Group charges an interest on the trade receivables from the customers with reference to certain mark-up on The People's Bank of China's lending rate for the year from the completion of the construction to time of the receipt of the trade receivables. Interest income from water environmental renovation projects attributable to shareholders of the Company was HK\$206.6 million for this year (2018: HK\$105.9 million).



Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK\$468.7 million from last year of HK\$1,398.9 million to HK\$1,867.6 million this year.



MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

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

2.2.2 Construction of BOT water projects

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

During the year, water plants under construction were mainly located in Zhejiang, Hunan, Guangdong, Sichuan and Inner Mongolia provinces. Total revenue for construction of BOT water projects was HK\$10,477.8 million (2018: HK\$8,698.6 million) and profit attributable to shareholders of the Company was HK\$1,888.3 million (2018: HK\$1,654.1 million).

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

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

Revenue from the provision of technical services and sales of machineries was HK\$2,574.5 million (2018: HK\$2,305.0 million), representing 9% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$840.5 million (2018: HK\$773.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS

3.1 Revenue

During the year, the Group recorded revenue of HK\$28,192.5 million (2018: HK\$24,596.9 million). The increase was mainly due to the increase in revenue from water treatment services and construction services for the water environmental renovation.

3.2 Cost of sales

Cost of sales for the year amounted to HK\$18,025.7 million, compared to last year of HK\$15,820.9 million. The increase was mainly due to the increase in operating costs of water plants amounted to HK\$273.5 million and cost of construction services of HK\$1,592.4 million. Cost of sales mainly included construction costs of HK\$13,009.8 million and operating costs of water plants of HK\$3,754.7 million. The construction costs mainly consisted of subcontracting charges. The operating costs of water plants, mainly included electricity charges of HK\$913.5 million, staff costs of HK\$1,142.4 million and major overhaul charges of HK\$175.2 million; while the increase in operating costs was mainly due to increase in actual water processing volume. Major overhaul charges were the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangements. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to profit or loss based on amortisation method during the service concession periods.

3.3 Gross profit margin

During the year, gross profit margin remain constant at 36% (last year: 36%).

Gross margin for sewage and reclaimed water treatment services:

Gross margin for sewage and reclaimed water treatment services in Mainland China was 55% (last year: 55%). Gross margin for sewage and reclaimed water treatment services in Overseas was slightly increased to 25% (last year: 24%).

Gross margin for water distribution services:

Gross margin for water distribution services in Mainland China was 51% (last year: 50%). Excluding the imputed interest income of the Plant No. 9, gross margin for water distribution services was 51% (last year: 49%). The slight increase was mainly due to the newly acquired projects which generated a relatively higher gross margin during the year. Gross margin for water distribution services in Overseas slightly increased to 36% (last year: 33%).

Gross margin for construction services for comprehensive renovation projects:

Gross margin for construction services for comprehensive renovation projects increased from last year of 24% to 30% this year. Gross margin increased as (1) the major comprehensive renovation projects for the year have a relatively higher average gross margin; and (2) the EPC projects undertook by the Group during the year in moving towards an asset-light enterprise (with the new subcontracting businesses including equipment and construction material procurement and partial construction) enjoyed higher gross margin.



MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.3 Gross profit margin *(Continued)*

Gross margin for construction of BOT water projects:

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

Gross margin for technical services and sales of machineries for the water environmental renovation:

Gross margin for the technical services and sales of machineries for the water environmental renovation was 51% (last year: 60%). Gross margin decreased mainly due to the decrease in gross margin of technical services provided by 南京市市政設計研究院有限責任公司 (Nanjing Municipal Design and Research Institute Co., Ltd).

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$1,308.9 million during the year, compared to last year of HK\$1,253.3 million. The amount for this year mainly included sludge treatment income of HK\$147.6 million, pipeline installation income of HK\$254.3 million and VAT refund of HK\$415.1 million.

3.5 Administrative expenses

Administrative expenses for the year increased to HK\$2,499.6 million, compared to last year of HK\$2,206.4 million. The increase was mainly due to the increase in staff related expenses as a result of business expansion and increase in research and development expenses during the year.

3.6 Other operating expenses, net

Other operating expenses increased from HK\$275.8 million to HK\$619.2 million during the year. The increase was mainly due to the reversal of impairment recognised in last year and increase in cost of installation works and sludge treatment in current year.

3.7 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK\$1,601.2 million (2018: HK\$1,302.1 million) and interests on corporate bonds and notes payable of HK\$1,029.6 million (2018: HK\$915.6 million). The increase in finance costs was mainly due to the increase in bank and other borrowings and corporate bonds during the year. Also, there was an increase in market interest rate as compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.8 Share of profits of associates

Share of profits of associates decreased to HK\$385.0 million, compared to last year of HK\$459.7 million. The decrease was mainly due to decrease in share of profits of Beijing Enterprises Clean Energy Group Limited.

3.9 Share of profits of joint ventures

Share of profits of joint ventures increased to HK\$551.4 million, compared to last year of HK\$454.6 million. The increase was mainly contributed by the joint ventures which engaged in water treatment services and construction services for the water environmental renovation.

3.10 Income tax expense

Income tax expense for the year included the current PRC income tax of HK\$836.2 million. The effective tax rate for the PRC operation was about 19% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax charge for the year, was HK\$845.0 million.

3.11 Profit attributable to holders of perpetual capital instruments

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

3.12 Property, plant and equipment

Property, plant and equipment decreased by HK\$56.7 million which was mainly due to the reallocation of assets under finance lease to right-of-use assets in accordance with the newly effective HKFRS 16 during the year.

3.13 Investment properties

Investment properties represented a portion of a building located in Beijing which the Group held to earn rental income during the year. The investment property was stated at fair value. During the year, the investment properties of HK\$234.5 million were transferred to property, plant and equipment.



MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

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

The Group's total amounts due from contract customers, receivables under service concession arrangements and trade receivables of HK\$96,446.9 million (2018: HK\$75,696.6 million) included:

By accounting nature:

	Non-current HK\$'M	2019 Current HK\$'M	Total HK\$'M	Non-current HK\$'M	2018 Current HK\$'M	Total HK\$'M
(i) Amounts due from contract customers	46,646.9	2,988.4	49,635.3	34,722.6	3,008.6	37,731.2
(ii) Receivables under service concession arrangements	32,033.3	3,815.4	35,848.7	27,612.5	3,252.5	30,865.0
(iii) Trade receivables	4,638.4	6,324.5	10,962.9	2,903.6	4,196.8	7,100.4
Total	83,318.6	13,128.3	96,446.9	65,238.7	10,457.9	75,696.6

- (i) Amounts due from contract customers of HK\$49,635.3 million represent the balances of accumulated construction costs incurred to date plus recognised accumulated gross profits exceeding progress billings arising from BOT projects and comprehensive renovation projects during the phase of construction. Total balance increased by HK\$11,904.1 million (non-current portion increased by HK\$11,924.3 million and current portion decreased by HK\$20.2 million), which was mainly due to recognition of construction revenue during the year; and

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

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

- (ii) Receivables under service concession arrangements of HK\$35,848.7 million represent the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts arising from BOT and TOT projects. The increase in balance by HK\$4,983.7 million (non-current portion increased by HK\$4,420.8 million and current portion increased by HK\$562.9 million) was mainly due to conversion of joint ventures to subsidiaries as result of the acquisition of additional interest in joint ventures and some BOT plants were newly operated during the year; and
- (iii) Trade receivables of HK\$10,962.9 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The balance increased by HK\$3,862.5 million (non-current portion increased by HK\$1,734.8 million and current portion increased by HK\$2,127.7 million). Increase in trade receivables was mainly due to reclassification from amounts due from contract customers as a result of completion of certain comprehensive renovation projects.

By business nature:

	2019 <i>HK\$'M</i>	2018 <i>HK\$'M</i>
Water treatment services by BOT and TOT projects	66,091.6	53,185.9
Construction services of comprehensive renovation projects	27,120.7	19,817.2
Technical and consultancy services and other businesses	3,234.6	2,693.5
Total	96,446.9	75,696.6



MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

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

Total receivables, which relates to the BOT and TOT projects, recognised under the service concession agreements in accordance with the HK(IFRIC)-Int 12 *Service Concession Arrangements* were HK\$66,091.6 million (2018: HK\$53,185.9 million). Total receivables for the construction service of comprehensive renovation projects were HK\$27,120.7 million (2018: HK\$19,817.2 million). Total receivables for technical and consultancy services and other businesses were HK\$3,234.6 million (2018: HK\$2,693.5 million).

3.15 Operating concessions

Operating concessions represents rights that the Group can charge users under service concession contracts. It is a non-guarantee receipt right to receive cash because the chargeable amounts are contingent on the extent that the users use the service. The balance arises from BOT and TOT projects in operation.

3.16 Investments in joint ventures

Investments in joint ventures increased by HK\$693.3 million, mainly due to the capital injection to the joint ventures and share of profit during the year.

3.17 Investments in associates

Investments in associates increased by HK\$853.6 million, mainly due to the share of profit and capital reserve of associates during the year.

3.18 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK\$1,849.1 million (non-current portion increased by HK\$52.4 million and current portion increased by HK\$1,796.7 million), mainly due to the increase in advances to subcontractors and suppliers.

3.19 Other payables and accruals

Other payables and accruals increased by HK\$532.1 million. The increase was mainly due to the increase in contract liabilities during the year.

3.20 Cash and cash equivalents

Cash and cash equivalents decreased by HK\$777.7 million, mainly due to the payments for acquisition and construction of various water projects in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.21 Bank and other borrowings

Bank and other borrowings increased by HK\$7,302.8 million. Increase in bank and other borrowings was mainly utilised to finance for the acquisition and construction of various water project in the PRC.

3.22 Corporate bonds

Corporate bonds decreased by HK\$2,009.5 million which was mainly due to repayment on maturity date.

3.23 Trade payables

The increase in trade payables by HK\$9,020.3 million was mainly due to increase in trade payables to subcontractors for construction services of the water environmental renovation projects during the year.

3.24 Deferred Income

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

3.25 Liquidity and financial resources

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

As at 31 December 2019, the Group's cash and cash equivalents amounted to HK\$12,159.9 million (31 December 2018: HK\$12,937.6 million).

The Group's total borrowings amounted to HK\$61,265.2 million (31 December 2018: HK\$56,027.9 million) comprised bank and other borrowings of HK\$39,376.2 million (31 December 2018: HK\$32,073.4 million), finance lease payables* of HK\$379.3 million (31 December 2018: HK\$401.1 million) notes payables of HK\$2,944.8 million (31 December 2018: HK\$2,979.0 million) and corporate bonds of HK\$18,564.9 million (31 December 2018: HK\$20,574.4 million). All the corporate bonds and notes payable bear interest at fixed rates. Over 90% of bank and other borrowings bear interest at floating rates.

As at 31 December 2019, the Group had banking facilities amounting to HK\$42.1 billion, of which HK\$22.5 billion have not been utilised. The banking facilities are of 1 to 5 years term.

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



MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.25 Liquidity and financial resources *(Continued)*

The Group's total equity amounted to HK\$46,531.2 million (31 December 2018: HK\$37,812.1 million).

The gearing ratio as defined as sum of bank and other borrowings, finance lease payables, notes payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 1.06 as at 31 December 2019 (31 December 2018: 1.14). The decrease in the gearing ratio as at 31 December 2019 was mainly due to the increase in equity as a result of share subscription of HK\$2,567.1 million.

3.26 Capital expenditures

During the year, the Group's total capital expenditures were HK\$12,501.1 million (2018: HK\$9,709.1 million), of which HK\$609.1 million was paid for the acquisition of property, plant and equipment and intangible assets; HK\$8,916.7 million was spent on construction and acquisition of water plants, HK\$2,975.3 million mainly represented the consideration for acquisition of equity interests in subsidiaries and equity investments and capital injections in joint ventures and associates.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group employed 18,424 employees. Total staff cost for the year ended 31 December 2019 was HK\$2,936,686,000 (2018: HK\$2,373,019,000). The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses, share options and share awards are awarded to certain employees according to the assessment of individual performance. On 24 April 2013, the Company had granted 400,000,000 share options at an exercise price of HK\$2.244 per share under a share option scheme adopted on 28 June 2011 for the Group's directors and employees (the "Scheme"). On 28 March 2014, the Company had granted an independent non-executive director of the Company 2,000,000 share options at an exercise price of HK\$5.18 per share under the Scheme. 9,810,000 share options were exercised, no share option was lapsed or cancelled during 31 December 2019. As at 31 December 2019, the Company had 255,126,000 share options outstanding which were granted on 24 April 2013 and 2,000,000 share options outstanding which were granted on 28 March 2014. The total outstanding share options represented approximately 2.57% of the Company's ordinary shares in issue as at 31 December 2019. On 26 September 2019, the Company had granted 15,374,599 awarded shares, represented approximately 0.15% of the Company's ordinary shares in issue as at 31 December 2019, to the eligible persons pursuant to the share award scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year ended 31 December 2019, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies.

CHARGES ON THE GROUP'S ASSETS

The secured bank and other borrowings, the corporate bonds and the notes payable of the Group as at 31 December 2019 are secured by:

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

Save as disclosed above, at 31 December 2019, the Group did not have any charges on the Group's assets.

FOREIGN EXCHANGE EXPOSURE

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



CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Board Composition

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

Executive Directors

Mr. Li Yongcheng (*Chairman*)
Mr. E Meng (*Vice Chairman*) (*resigned on 3 January 2020*)
Mr. Jiang Xinhao
Mr. Zhou Min (*Chief Executive Officer*)
Mr. Li Haifeng
Mr. Zhang Tiefu
Ms. Qi Xiaohong (*passed away on 6 September 2019*)
Mr. Ke Jian
Ms. Sha Ning (*appointed on 3 January 2020*)
Mr. Tung Woon Cheung Eric
Mr. Li Li

Independent Non-executive Directors (the “INEDs”)

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

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

Role and Function

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Role and Function *(Continued)*

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

According to the records maintained by the Company, the Directors who were held office during the year ended 31 December 2019 received the following training in respect of the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Listing Rules on continuous professional development during the year ended 31 December 2019.

Name of Director	Corporate Governance/ Updates on Laws, Rules & Regulations		Accounting/Financial/ Management or Other Professional Skills	
	Read Materials	Attended Seminars/ Briefing	Read Materials	Attended Seminars/ Briefing
Executive Directors				
Mr. Li Yongcheng (<i>Chairman</i>)	✓	✓		
Mr. E Meng (<i>Vice Chairman</i>) (<i>resigned on 3 January 2020</i>)	✓	✓		
Mr. Jiang Xinhao	✓	✓		
Mr. Zhou Min (<i>Chief Executive officer</i>)	✓	✓		
Mr. Li Haifeng	✓	✓		
Mr. Zhang Tiefu	✓	✓		
Ms. Qi Xiaohong (<i>passed away on 6 September 2019</i>)	–	–	–	–
Mr. Ke Jian	✓	✓		
Mr. Tung Woon Cheung Eric	✓	✓	✓	✓
Mr. Li Li	✓	✓		
INEDs				
Mr. Shea Chun Lok Quadrant	✓	✓	✓	✓
Mr. Zhang Gaobo	✓			
Mr. Guo Rui	✓	✓		
Mr. Wang Kaijun	✓	✓	✓	✓
Dr. Lee Man Chun Raymond	✓			



CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Meeting and General Meeting

The Company held four Board meetings and two general meetings during the financial year ended 31 December 2019. Directors present in those Board meetings were either in person or through electronic means of communication. Attendance records of the Board meetings and general meetings for the year ended 31 December 2019 are set out below:

Name of Director	Number of Board meetings attended/held	Number of general meetings attended/held
Executive Directors		
Mr. Li Yongcheng (<i>Chairman</i>)	4/4	1/2
Mr. E Meng (<i>Vice Chairman</i>) (<i>resigned on 3 January 2020</i>)	0/4	0/2
Mr. Jiang Xinhao	3/4	0/2
Mr. Zhou Min (<i>Chief Executive Officer</i>)	4/4	1/2
Mr. Li Haifeng	4/4	0/2
Mr. Zhang Tiefu	4/4	0/2
Ms. Qi Xiaohong (<i>passed away on 6 September 2019</i>)	2/4	0/2
Mr. Ke Jian	4/4	0/2
Mr. Tung Woon Cheung Eric	4/4	2/2
Mr. Li Li	4/4	0/2
INEDs		
Mr. Shea Chun Lok Quadrant	4/4	1/2
Mr. Zhang Gaobo	4/4	2/2
Mr. Guo Rui	4/4	0/2
Mr. Wang Kaijun	1/4	0/2
Dr. Lee Man Chun Raymond	3/4	0/2

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

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

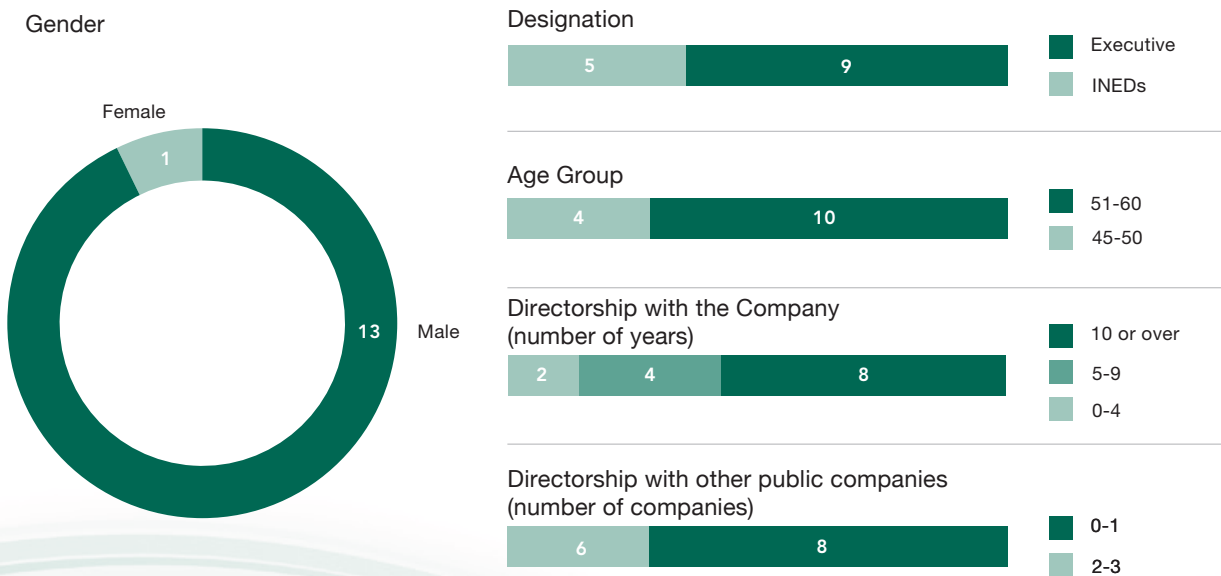
CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy formulated by the Company in accordance with the requirements of the Listing Rules with effect from 1 September 2013. It aims to set out the approach to achieve diversity on the Board. The Board endeavours to ensure that it has a balance of skills, experience and diversity of perspectives to the requirements of the Group’s business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board will review and monitor the implementation of board diversity on a regular basis or on the occasion of any vacancy arising from resignation or cessation as directors of the Company to ensure its effectiveness on determining the optional composition of the Board.

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



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



CORPORATE GOVERNANCE REPORT

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the financial year ended 31 December 2019, the positions of the chairman and the chief executive officer of the Company were held separately. The chairman of the Company is Mr. Li Yongcheng and the chief executive officer is Mr. Zhou Min. The segregation of duties of the chairman and the chief executive officer ensures a clear distinction in the chairman's responsibility to provide leadership for the Board and the chief executive officer's responsibility to manage the Company's business. Their roles are clearly defined to ensure their respective independence. There is no relationship between the chairman and chief executive officer of the Board in respect of financial, business, family or other material/relevant relationship.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board considers that the INEDs can provide independent advices on the Company's business strategies, results and management so as to safeguard the interests of the Company and its shareholders.

All INEDs had entered into letters of appointment with the Company for a term of three years but are subject to retirement by rotation and re-election in accordance with the bye-laws of the Company (the "Bye-Laws").

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD COMMITTEES

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Audit Committee

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

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

In addition, the Audit Committee had been delegated the responsibility to perform the corporate governance duties including:

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

Summary of work done during the year: reviewed the financial statements for the period from 1 January 2019 to 30 June 2019 and for the year ended 31 December 2019, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company, the risk management and internal control systems and the Company's compliance with the CG Code and disclosure in the corporate governance report.



CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

The Audit Committee held two meetings during the financial year ended 31 December 2019. Details of attendance of each Audit Committee members are as follows:

Name of Audit Committee members	Number of Audit Committee meetings attended/held
Mr. Shea Chun Lok Quadrant (<i>Chairman of Audit Committee</i>)	2/2
Mr. Zhang Gaobo	2/2
Mr. Guo Rui	2/2

Nomination Committee

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

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

The major responsibilities of the Nomination Committee include:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
2. to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;
3. to assess the independence of the INEDs; and
4. to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive officer.

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Nomination Committee *(Continued)*

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

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

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

Remuneration Committee

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

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

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

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

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



CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

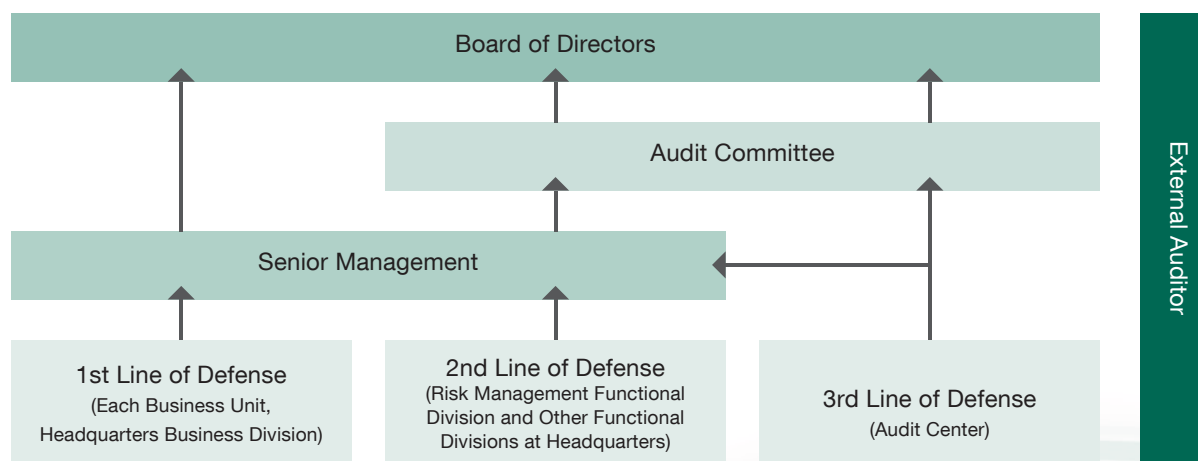
The Audit Committee of the Company is responsible for considering the appointment of the external auditors and reviewing the non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, external auditors' remuneration for audit services was approximately HK\$12.0 million and for non-audit service assignments was approximately HK\$5.5 million, which represented agreed-upon procedures engagement such as for the Group's interim financial report, taxation advisory and compliance services. The Audit Committee had satisfied that the non-audit services in 2019 did not affect the independence of the external auditors.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The risk management framework of the Group is designed of "Three Layers + Three Lines of Defense" model as shown below:



First Line of Defence

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

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Second Line of Defence

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

Third Line of Defence

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

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

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

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

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

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



CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

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

For the year ended 31 December 2019, both the Audit Committee and the Board were not aware of any material internal control deficiencies and were satisfied that the risk management and internal control systems of the Group are effective and adequate.

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

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

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

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the accounts for the year ended 31 December 2019, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

The responsibility of Ernst & Young, the Company's external auditors, is set out on page 78 to 84 of the "Independent Auditors' Report" in this annual report.

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric, as the executive Director, is also the company secretary of the Company. During the year ended 31 December 2019, Mr. Tung has complied with the relevant professional training required under Rule 3.29 of the Listing Rules. The biographical details of Mr. Tung is set out in the section headed "Directors and Senior Management" on page 47 in this annual report.

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY

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

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

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

SHAREHOLDERS' RIGHTS

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

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

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

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

Procedures for directing shareholders' enquiries to the Board

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



CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

Procedures for putting forward proposals at shareholders' meetings

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

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

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

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

Communication with shareholders

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

During the financial year ended 31 December 2019, the Company has proactively taken the following measures to ensure effective shareholders' communication and enhance our transparency:

1. maintained frequent contacts with institutional shareholders and potential investors through various channels such as meetings, telephone and emails;
2. updated regularly the Company's news and developments through the "Investor Relations" section of the Company's website; and
3. arranged on-site visits to the Group's projects for investors and research analysts.

The above measures will be provided them with the latest development of the Group as well as the water industry.

Constitutional documents

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

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2019, in the opinion of the Board, the Company complied with all code provisions set out in the CG Code, with deviation mentioned below.

Code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend the annual general meeting of the Company. Due to other business engagements, the chairman of the Board did not attend the annual general meeting of the Company held on 31 May 2019. In his absence, the executive director and chief executive officer of the Company was invited to chair the meeting and member of Nomination Committee was invited to attend and answer shareholders' questions about the Group's matter.



DIRECTORS AND SENIOR MANAGEMENT

The Directors except Ms. Qi Xiaohong passed away on 6 September 2019 during the year were and up to the date of this report are:

DIRECTORS

Executive Directors

Mr. Li Yongcheng (“Mr. Li”), aged 58, was appointed as the chairman and an executive director of the Company on 29 October 2014. Mr. Li is also the chairman of nomination committee of the Company. He is currently vice chairman and executive deputy general manager of Beijing Enterprises Group Company Limited. He is an executive director and vice chairman of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd.. Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master’s degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li possesses extensive experience and professional expertise in public utilities industry, and also has plenty of experience in enterprise operations and capital operations.

Mr. E Meng (“Mr. E Meng”), aged 61, was appointed as an executive director of the Company in February 2008 and the vice chairman of the Company in April 2013 and resigned on 3 January 2020. He served as a vice general manager and the chief financial officer of Beijing Enterprises Group Company Limited. He was also an executive director and an executive vice president of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange and the chairman and an executive director of Beijing Enterprises Environment Group Limited (Stock Code: 154), a company listed on the main board of the Stock Exchange. Mr. E Meng graduated from China Science and Technology University with a master’s degree in engineering and subsequently obtained an EMBA degree from The Hong Kong University of Science and Technology. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the deputy director of Beijing New Technology Development Zone and concurrently acting as the director of the Department of Financial Auditing, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State-owned Assets Management Office of Beijing Haidian District. Mr. E Meng had extensive experience in economics, finance and enterprise management.

Mr. Jiang Xinhao (“Mr. Jiang”), aged 55, was appointed as an executive director of the Company in June 2008. Mr. Jiang serves as a vice general manager of Beijing Enterprises Group Company Limited, an executive director and vice president of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange. Mr. Jiang is also a non-executive director of China Gas Holdings Limited (Stock Code: 384) a company listed on the main board of the Stock Exchange. Mr. Jiang was an executive director of Beijing Properties (Holdings) Limited (Stock Code: 925), a company listed on the main board of the Stock Exchange between 2011 and 2016. Mr. Jiang is a senior economist and graduated from Fudan University in 1987 with a bachelor’s degree in law, and then in 1992 with a master’s degree in law from Fudan University. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a deputy general manager of Jingtai Finance Company in Hong Kong, and subsequently a director and vice president of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a director and the chief executive officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a manager of the investment development department of Beijing Holdings Limited and a general manager of Beijing BHL Investment Center between May 2000 and February 2005. Mr. Jiang has many years of experience in economics, finance and corporate management.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Zhou Min (“Mr. Zhou”), aged 56, was appointed as an executive director of the Company in August 2008 and the chief executive officer of the Company on 30 March 2016. Mr. Zhou is also the chairman and a non-executive director of Beijing Enterprises Urban Resources Group Limited (Stock Code: 3718), a company listed on the main board of the Stock Exchange. Mr. Zhou graduated with an EMBA from the Tsinghua University and is the vice chairman of Mianyang Zhejiang Chamber of Commerce (綿陽市浙江商會). Mr. Zhou previously worked in the People’s Bank of China, Yongkang Branch of Zhejiang Province (浙江省人民銀行永康支行), the Industrial and Commercial Bank of China, Yongkang Branch of Zhejiang Province (浙江省工商銀行永康支行), and was the chairman of Beijing Jingsheng Investment Company Limited (北京景盛投資有限公司). Mr. Zhou is now the chairman of BEWG Environmental Group Co., Ltd.

Mr. Li Haifeng, formerly known as 李海峰, aged 49, was appointed as an executive director and a vice president of the Company in August 2008. He is also a non-executive director of Beijing Enterprises Urban Resources Group Limited (Stock Code: 3718), a company listed on the main board of the Stock Exchange. He graduated with a bachelor’s degree in Laws from the Peking University. He was an assistant to president of Founder Group (方正集團) and the executive vice president of Founder Xintiandi Software Technology Co. Ltd. (方正新天地軟件科技有限公司). He is currently the chairman, an executive director and the chief executive officer of Carry Wealth Holdings Limited (Stock Code: 643), a company listed on main board of the Stock Exchange.

Mr. Zhang Tiefu (“Mr. Zhang”), aged 57, was appointed as an executive director and a vice president of the Company in April 2009. He graduated from Jilin Industrial Institute with a bachelor’s degree of engineering in 1983. He further studied business administration in the University of International Business and Economics in 1998. He has been awarded the titles of senior engineer and senior international finance manager. He served as the senior manager in China Nation Printing Materials Corporation (中國印刷物資總公司) in 1986. He joined Beijing Enterprises Holdings Limited as manager in 2001, and is concurrently acting the director and a general manager of Beijing Bei Kong Water Production Co., Ltd. (北京北控制水有限公司) and a director of Beijing Yanjing Beer Co., Ltd. (北京燕京啤酒有限公司). He has extensive experiences in economics, market development and corporate management.

Mr. Ke Jian (“Mr. Ke”), aged 51, was appointed as an executive director of the Company in June 2011 and is a vice president of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange and the chairman, chief executive officer and an executive director of Beijing Enterprises Environment Group Limited (Stock Code: 154), a company listed on the main board of the Stock Exchange. Mr. Ke is a PRC chief senior accountant, certified tax agent and senior international finance manager. Mr. Ke received a bachelor’s degree in economics from Beijing College of Finance and Commerce and a MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration.



DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Ms. Sha Ning (“Ms. Sha”), aged 49, was appointed as an executive director of the Company in January 2020 and is a vice president of Beijing Enterprises Holdings Limited (the “BEHL”) (Stock Code: 392), a company listed on the main board of the Stock Exchange and also serves as an executive director and a vice president of Beijing Enterprises Environment Group Limited (Stock Code: 154), a company listed on the main board of the Stock Exchange. Ms. Sha graduated from the Business and Economics Faculty of Heilongjiang Institute of Commerce in 1992, and studied Accounting in Beijing School of Business and Capital University of Economics and Business. She obtained an EMBA degree from The Hong Kong University of Science and Technology, and was granted the title of PRC Senior Accountant. Ms. Sha joined BEHL since 2001 and has accumulated extensive experience in financial management.

Mr. Tung Woon Cheung Eric (“Mr. Tung”), aged 49, was appointed as an executive director of the Company in August 2011. Mr. Tung is the chief financial officer and company secretary of the Company. Mr. Tung is also the assistant president and general manager of the finance department of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange, the company secretary of Biosino Bio-Technology and Science Incorporation* (Stock Code: 8247), a company listed on GEM of the Stock Exchange and an independent non-executive director of South China Financial Holdings Limited (Stock Code: 619) and GR Properties Limited (Stock Code: 108), both of which are listed on the main board of the Stock Exchange. Mr. Tung graduated from York University, Toronto, Canada with a bachelor’s honours degree in administrative studies. He is a Hong Kong Certified Public Accountant and a U.S. licensed practice Certified Public Accountant.

Mr. Li Li, aged 54, was appointed as an executive director of the Company in February 2014 and the chief operating officer of the Company on 30 March 2016. He is a Senior Engineer and qualified Senior Project Manager. Mr. Li Li joined the Company in October 2010. Mr. Li Li is also a non-executive director of Beijing Enterprises Urban Resources Group Limited (Stock Code: 3718), a company listed on the main board of the Stock Exchange. Mr. Li Li graduated from Xian Jiaotong University in mechanical engineering and PhD in engineering at School of Environment, Tsinghua University. Prior to joining the Company, Mr. Li Li was then a senior engineer, a technical quality director and vice president of the First Design & Research Institute (now known as First Design and Research Institute M1 China Co., Ltd.). Mr. Li Li served as various key positions of 北京桑德環保集團有限公司 (Beijing Sound Environmental Group Company Limited*) from 2001 to 2010. He has extensive experience in investment, construction and operation in water industry.

* For identification purpose only

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors

Mr. Shea Chun Lok Quadrant (“Mr. Shea”), formerly known as Shea Chi Lap, Quadrant, aged 53, was appointed as an independent non-executive Director of the Company in April 2002. Mr. Shea is also the chairman of audit committee. Mr. Shea is currently an executive director, the chief financial officer and company secretary of Asia Allied Infrastructure Holdings Limited (Stock Code: 711), a company listed on the main board of the Stock Exchange. He is also an independent non-executive director of Hi-Level Technology Holdings Limited (Stock Code: 8113), a company listed on GEM of the Stock Exchange. Mr. Shea graduated from Monash University of Australia with a bachelor’s degree in Business and later completed a postgraduate program of Public Finance (Taxation) and obtained a master’s degree in Economics from Jinan University, China and a master of Laws degree from Renmin University of China. He is also a fellow member of CPA Australia, a member of Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong, The Chartered Institute of Management Accountants of the United Kingdom and Institute of Singapore Chartered Accountants and a Chartered Global Management Accountant. Mr. Shea is a Certified Tax Adviser of Hong Kong and has obtained a Certificate of Pass in Practice Training Examination for Hong Kong Certified Tax Advisers Serving in Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Qianhai, Shenzhen jointly issued by Shenzhen Municipal Office of the State Administration of Taxation and Shenzhen Local Taxation Bureau. Mr. Shea has substantial experience in accounting and finance in listed companies and worked as a qualified accountant and company secretary in various companies listed on the main board of the Stock Exchange over the years.

Mr. Zhang Gaobo, aged 55, was appointed as an independent non-executive director of the Company in May 2008. He is also a member of each of the audit committee and the nomination committee and chairman of the remuneration committee of the Company. He obtained a bachelor’s degree in science from Henan University in 1985 and later graduated from Peking University with a master’s degree in Economics in 1988. From 1988 to 1991, he worked in Hainan Provincial Government and PBOC Hainan Branch and as the chairman of Hainan Stock Exchange Centre. Since 1993, he has been a founding partner and chief executive of Oriental Patron Financial Group and is responsible for its overall general management and business development. He is also chairman and an executive director of OP Financial Limited (Stock Code: 1140), a company listed on the main board of Stock Exchange and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange from June 2007 to June 2017. He has taken up the role to serve as the vice-president of Finance Center for South-South Cooperation Limited, a non-profit international organization in Special Consultative Status with ECOSOC of the United Nations, established for the promotion of South South Cooperation since April 2014.



DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors *(Continued)*

Mr. Guo Rui (“Mr. Guo”), aged 52, was appointed as an independent non-executive director of the Company in May 2008. He is also a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Guo is the managing director of 北京明銳恒豐管理諮詢有限公司 Beijing MingRui Hengfeng Management & Consulting Co. Ltd., an investment management organisation that invests in real estate, clean energy, healthcare and pharmaceuticals, biotechnology, financial institutes, mining and manufacturing sectors. Mr. Guo was a former senior consultant of Arthur Andersen LLC from 1999 to 2001. Mr. Guo holds a bachelor’s degree of computer science (or engineering) from Peking University and a master’s degree of computer engineering from Northwestern University, U.S.A.

Mr. Wang Kaijun (“Mr. Wang”), aged 59, was appointed as an independent non-executive director of the Company in August 2008. Mr. Wang holds a doctor’s degree from the Environmental Technology Department of the Wageningen Agricultural University in the Netherlands. Mr. Wang was previously appointed as the chief engineer of Beijing Municipal Research Institute of Environmental Protection (北京市環境保護科學研究院). He is now working as a professor in School of Environment, Tsinghua University (清華大學環境學院), a member of Committee of Science and Technology in Ministry of Environmental Protection and the director of State Environment Protection Engineering Center for Technology Management and Evaluation. Mr. Wang has been engaged and experienced in the relevant research, development and industrialization of sewage pollution control technologies and the evaluation of policy-making over the years. Mr. Wang has unique and innovative opinions on the academic study and has made many achievements and demonstration cases on the hydrolysis aerobic process theory, aerobic and anaerobic reactor theory and design, development and application of sewage sludge treatment and disposal technologies, planning and management of state environment protection administration system. Mr. Wang also developed the research fields on municipal sewage hydrolysis-aerobic treatment process, high performance anaerobic reactors, sewage sludge treatment and disposal, livestock manure treatment and rural environmental protection in mainland China. Mr. Wang is currently a non-executive director of the Sichuan Jinyu Automobile City (Group) Co., Ltd. (Stock Code: 000803) and an independent non-executive director of Beijing OriginWater Technology Co., Ltd. (Stock Code: 300070). Both Sichuan Jinyu Automobile City (Group) Co., Ltd. and Beijing OriginWater Technology Co., Ltd. are listed on Shenzhen Stock Exchange.

Dr. Lee Man Chun Raymond (“Dr. Lee”), aged 49, *CPPCC National Committee, SBS JP*, was appointed as an independent non-executive director of the Company in June 2017. He was conferred the Honorary Degree of Doctor of Laws in 2014 and holds a bachelor’s degree in Applied Science from the University of British Columbia in Canada. Dr. Lee is the chairman of Lee & Man Paper Manufacturing Limited (Stock Code: 2314), a company listed on main board of the Stock Exchange. From 2004 to 2017, Dr. Lee was an independent non-executive director of the listed company, Bossini International Holdings Limited (Stock Code: 592), a company listed on main board of the Stock Exchange. Dr. Lee was awarded the “Young Industrialist Award of Hong Kong 2002” and received an award for “2003 Hong Kong Ten Outstanding Young Persons Selection Awardees”. He is also the chairman of Raymond Lee Charitable Foundation since 2017. Since December 2013, Dr. Lee was appointed as the member of Standing Committee, All-China Federation of Returned Overseas. Dr. Lee is currently appointed as president of Centum Charitas Foundation. Dr. Lee has over 25 years of operational experience in paper manufacturing and is experienced in professional formula of paper making and product development.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

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

RESULTS AND DISTRIBUTIONS

The Group's profit for the year ended 31 December 2019 and the Group's financial position at that date are set out in the consolidated financial statements on pages 85 to 258. An interim distribution of HK10.7 cents per ordinary share was paid on 21 October 2019. The Board recommended to make final distribution of HK7.8 cents per ordinary share out of the contributed surplus of the Company to shareholders of the Company for their continuous supports to the Company. This recommendation is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. The final distribution will be paid on or around Monday, 29 June 2020.

CLOSURES OF REGISTER OF MEMBERS

For Annual General Meeting

The register of members will be closed from Thursday, 4 June 2020 to Tuesday, 9 June 2020 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Tuesday, 9 June 2020, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 3 June 2020.

For Entitlement to Proposed Final Distribution

The register of members will be closed from Monday, 15 June 2020 to Wednesday, 17 June 2020 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final distribution, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 12 June 2020. Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the proposed final distribution will be paid on or around Monday, 29 June 2020.



REPORT OF THE DIRECTORS

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the chairman's statement on pages 4 to 7 of this annual report. Description of possible risks and uncertainties that the Group may be facing, can be found in the chairman's statement on page 6. The financial risk management objectives and policies of the Group can be found in note 56 to the financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided on pages 8 to 30 of the Group's management discussion and analysis. In addition, discussions on the Group's environmental policies, relationship with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the chairman's statement on pages 4 to 6 and the corporate governance report on pages 31 to 44 of this annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual reports of the Company for the financial years ended 31 December 2019, 2018, 2017, 2016, 2015 is set out on pages 259 to 260. This summary does not form part of the audited financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group together accounted for 15% of the Group's revenue and aggregate purchases attributable to the Group's five largest suppliers accounted for 12% of the Group's total purchases for the year. Sales to the largest customer accounted for 4% of the Group's revenue and purchases from the largest supplier accounted for 4% of the Group's purchases.

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

SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Details of the Company's principal subsidiaries, joint ventures and associates at 31 December 2019 are set out in notes 1, 20 and 21 to the financial statements, respectively.

SHARE CAPITAL AND SHARE ISSUED

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

REPORT OF THE DIRECTORS

DEBENTURE ISSUED

As at 31 December 2019, the outstanding principal amounts of bonds guaranteed by the Company and issued by a wholly-owned subsidiary of the Company was RMB253,401,000, with maturity date in April 2021 and interest rate at 3.60% per annum.

As at 31 December 2019, the outstanding principal amounts of bonds issued by the Company was RMB2,200,000,000, with maturity date in July 2023 and interest rate at 3.33% per annum. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company.

As at 31 December 2019, the outstanding principal amounts of bonds issued by the Company was RMB700,000,000, with maturity date in August 2024 and interest rate at 3.25% per annum. Three years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company.

As at 31 December 2019, the outstanding principal amounts of bonds issued by the Company was RMB1,300,000,000, with maturity date in August 2022 and interest rate at 5.20% per annum. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company.

As at 31 December 2019, the outstanding principal amounts of corporate notes guaranteed by the Company and issued by subsidiaries of the Company were RMB2,000,000,000 and HK\$700,000,000, with both maturity dates in November 2022 and May 2020 and fixed interest rates at 6.15% and 3.9% per annum, respectively.

As at 31 December 2019, the outstanding principal amounts of extendable bonds guaranteed by the Company and issued by a wholly-owned subsidiary of the Company was RMB2,800,000,000 with fixed interest rate of 3.68% per annum to be payable for first five years. After the first five years, the wholly-owned subsidiary of the Company shall have a right to adjust the coupon rate for a cycle of every five years, unless and until the wholly-owned subsidiary of the Company chooses to repay the outstanding principal amount with accrued interests in full. The bond holders shall not be entitled to sell back the bonds to the wholly-owned subsidiary of the Company.



REPORT OF THE DIRECTORS

DEBENTURE ISSUED *(Continued)*

As at 31 December 2019, the outstanding principal amounts of extendable notes issued by a wholly-owned subsidiary of the Company was RMB2,800,000,000 with fixed interest rate of 3.70% per annum to be payable for the first five years. After the first five years, the wholly-owned subsidiary of the Company shall have a right to adjust the coupon rate for a cycle of every five years, unless and until the wholly-owned subsidiary of the Company chooses to repay the outstanding principal amount with accrued interests in full. The note holders shall not be entitled to sell back the notes to the wholly-owned subsidiary of the Company.

As at 31 December 2019, the outstanding principal amounts of Islamic medium-term notes issued by a wholly-owned subsidiary of the Company were MYR120,000,000, MYR90,000,000, MYR80,000,000, MYR80,000,000 and MYR30,000,000 with maturity dates in July 2020, July 2021, July 2022, July 2023 and July 2024 and fixed interest rates at 5.10%, 5.20%, 5.30%, 5.40% and 5.50% per annum, respectively.

As at 31 December 2019, the outstanding principal amounts of bonds guaranteed by the Company and issued by a wholly-owned subsidiary of the Company was US\$500,000,000, with maturity date in May 2023 and fixed interest rate at 4.95% per annum.

As at 31 December 2019, the outstanding principal amounts of medium-term notes issued by the Company was RMB3,000,000,000, with maturity dates in May 2023 and May 2025 and interest rates at 4.92% and 5.1% per annum, respectively. Two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of medium-term notes and the notes holders shall be entitled to sell back the notes to the Company.

As at 31 December 2019, the outstanding principal amounts of medium-term notes issued by the Company was RMB3,000,000,000, with maturity dates in July 2023 and July 2025 and interest rates at 4.45% and 4.72% per annum, respectively. Two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of medium-term notes and the notes holders shall be entitled to sell back the notes to the Company.

As at 31 December 2019, the outstanding principal amounts of medium-term notes issued by the Company was RMB2,000,000,000, with maturity dates in January 2026 and January 2029 and interest rates at 3.95% and 4.49% per annum, respectively. Two years prior to the maturity of the medium-term notes due in 2026, the Company shall be entitled to adjust the coupon rate of such medium-term notes and the notes holders shall be entitled to sell back such notes to the Company.

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

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

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2019, the Company's reserves available for distribution to shareholders of the Company amounted to HK\$4,719,129,000.

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

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

DIRECTORS

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

Executive Directors

Mr. Li Yongcheng (*Chairman*)
Mr. E Meng (*Vice Chairman*) (*resigned on 3 January 2020*)
Mr. Jiang Xinhao
Mr. Zhou Min (*Chief Executive Officer*)
Mr. Li Haifeng
Mr. Zhang Tiefu
Ms. Qi Xiaohong (*passed away on 6 September 2019*)
Mr. Ke Jian
Ms. Sha Ning (*appointed on 3 January 2020*)
Mr. Tung Woon Cheung Eric
Mr. Li Li

Independent Non-executive Directors

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



REPORT OF THE DIRECTORS

DIRECTORS *(Continued)*

Ms. Sha Ning was appointed as an executive director of the Company on 3 January 2020. In accordance with Bye-law 91 of the Company, Ms. Sha Ning shall hold office until the forthcoming annual general meeting and being eligible, offers herself for re-election.

In accordance with Bye-law 99(B) of the Company, Mr. Zhang Tiefu, Mr. Zhang Gaobo, Mr. Guo Rui, Mr. Wang Kaijun and Dr. Lee Man Chun Raymond shall retire by rotation from office as Directors at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

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

BOARD CHANGES

Since the date of the interim report 2019 of the Company and up to date of this annual report, there have changes to the Board effective from 3 January 2020 as follows:

- (1) Mr. E Meng resigned as vice chairman of the Board and an executive director of the Company; and
- (2) Ms. Sha Ning was appointed as an executive director of the Company.

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

Changes in information of Directors since the date of the interim report 2019 of the Company and up to the date of this annual report, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

- (1) Mr. Zhou Min is the chairman and a non-executive director of Beijing Enterprises Urban Resources Group Limited (Stock Code: 3718), a company listed on the main board of the Stock Exchange;
- (2) Mr. Li Haifeng is a non-executive director of Beijing Enterprises Urban Resources Group Limited (Stock Code: 3718), a company listed on the main board of the Stock Exchange;
- (3) Mr. Ke Jian is the chairman, executive director and chief executive officer of Beijing Enterprises Environment Group Limited (Stock Code: 154), a company listed on the main board of the Stock Exchange;
- (4) Mr. Li Li is a non-executive director of Beijing Enterprises Urban Resources Group Limited (Stock Code: 3718), a company listed on the main board of the Stock Exchange; and

REPORT OF THE DIRECTORS

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

- (5) Mr. Wang Kaijun is a non-executive director of the Sichuan Jinyu Automobile City (Group) Co., Ltd. (Stock Code: 000803) and an independent non-executive director of Beijing OriginWater Technology Co., Ltd. (Stock Code: 300070). Both Sichuan Jinyu Automobile City (Group) Co., Ltd. and Beijing OriginWater Technology Co., Ltd. are listed on Shenzhen Stock Exchange.

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

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the "Directors and Senior Management" of the Company are set out on pages 45 to 49 of this annual report.

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

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

DIRECTORS' SERVICE CONTRACTS

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



REPORT OF THE DIRECTORS

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's directors' remuneration are set out on pages 156 to 158 of this annual report.

Further details of the Company's remuneration committee are set out in the corporate governance report on page 38 of this annual report.

DISCLOSURE OF INTERESTS

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

As at 31 December 2019, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the "Model Code"), were as follows:

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

Name of Directors	Number of ordinary shares				Total	Approximate percentage of the Company's issued share capital (Note 2)
	Personal interests	Family interests	Corporate interests	Other interests		
Mr. Zhou Min	400,000	–	307,676,110 (Note 1)	–	308,076,110	3.0742%
Mr. Li Haifeng	80,000	–	–	–	80,000	0.0008%
Mr. Li Li	10,000	–	–	–	10,000	0.0001%

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS *(Continued)*

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

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

Associated Corporation	Directors	Number of ordinary shares				Total	Approximate percentage of the associated corporation's issued share capital <i>(Note 5)</i>
		Personal interests	Family interests	Corporate interests	Other interests		
Beijing Enterprises Clean Energy Group Limited ("BECEG")	Mr. Zhou Min	–	–	1,824,086,800 <i>(Note 3)</i>	–	1,824,086,800	2.8714%
	Mr. Li Haifeng	–	–	1,127,175,080 <i>(Note 4)</i>	–	1,127,175,080	1.7744%

Notes:

- 307,676,110 ordinary shares of HK\$0.10 each in the share capital of the Company ("Shares") as at 31 December 2019 are held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
- The percentage represented the number of Shares over the total issued Shares of the Company as at 31 December 2019 of 10,021,195,871 Shares.
- This represented the number of ordinary shares of BECEG of HK\$0.001 each ("BECEG Ordinary Shares") held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
- This represented the number of BECEG Ordinary Shares held by Maolin Investments Limited which is wholly and beneficially owned by Mr. Li Haifeng, an executive director of the Company.
- The percentage represented the number of BECEG Ordinary Shares over the total issued shares of BECEG as at 31 December 2019 of 63,525,397,057 shares.

(iii) Long positions in share options of the Company

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

(iv) Long positions in awarded shares of the Company

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

Save as disclosed above, as at 31 December 2019, there were no interest or short position of the directors or chief executives of the Company in the Shares, the underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), that are required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code or the SFO.



REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

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

The total number of shares available for issue under the Scheme is 548,349,469 Shares, representing approximately 5.47% of the ordinary Shares of the Company in issue as at 31 December 2019. The maximum number of ordinary Shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

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

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

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

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

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

During the year ended 31 December 2019, no option was granted under the Scheme, the movements in the share options of the Company during the year are set out as follows:

Category of Participants/Name	Number of Share Options					As at 31 December 2019	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing Price per Share HK\$
	As at 1 January 2019	Granted	Exercised	Lapsed	Cancelled					
Directors										
Zhou Min	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	56,000,000	-	-	-	-	56,000,000				
Li Haifeng	5,200,000	-	(2,600,000)	-	-	2,600,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	4.131 (Note 2)
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	22,600,000	-	(2,600,000)	-	-	20,000,000				
Tung Woon Cheung Eric	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	9,000,000	-	-	-	-	9,000,000				
Li Li	1,180,000	-	-	-	-	1,180,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	12,700,000	-	-	-	-	12,700,000				



REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

Category of Participants/Name	Number of Share Options					As at 31 December 2019	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing Price per Share HK\$
	As at 1 January 2019	Granted	Exercised	Lapsed	Cancelled					
Shea Chun Lok Quadrant	400,000	–	(400,000)	–	–	–	24/4/2013	24/4/2018 – 23/4/2023	2.244	4.670 (Note 1)
	400,000	–	(400,000)	–	–	–				
Zhang Gaobo	400,000	–	–	–	–	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	800,000	–	–	–	–	800,000				
Guo Rui	400,000	–	–	–	–	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000				
Wang Kaijun	400,000	–	–	–	–	400,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	2,000,000	–	–	–	–	2,000,000				
Sub-total	103,900,000	–	(3,000,000)	–	–	100,900,000				
Eligible Participants including Employees										
In aggregate	8,026,000 (Note 3)	–	(230,000)	–	–	7,796,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	4.573 (Note 2)
	19,234,000 (Note 3)	–	(230,000)	–	–	19,004,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	4.492 (Note 2)
	28,696,000 (Note 3)	–	(430,000)	–	–	28,266,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	4.554 (Note 2)
	51,170,000 (Note 3)	–	(2,510,000)	–	–	48,660,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	4.596 (Note 2)
	53,910,000 (Note 3)	–	(3,410,000)	–	–	50,500,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	4.598 (Note 2)
	2,000,000	–	–	–	–	2,000,000	28/3/2014	1/6/2016 – 27/3/2024	5.180	–
Sub-total	163,036,000	–	(6,810,000)	–	–	156,226,000				
Total	266,936,000	–	(9,810,000)	–	–	257,126,000				

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

Notes:

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

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Scheme during the year ended 31 December 2019.

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

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

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

As at 31 December 2019, the Company had 257,126,000 share options outstanding under the Scheme. Should they be fully exercised, the Company will receive approximately HK\$582,863,000 (before issue expenses). The fair value of these unexercised options measured in accordance with the Group’s accounting policy (note 3.4 to the financial statements) amounted to HK\$235,751,000.



REPORT OF THE DIRECTORS

SHARE AWARD SCHEME

The Company has adopted a share award scheme (the “Share Award Scheme”) on 17 December 2018. The purpose of the Share Award Scheme is to recognise the contributions by certain employees, directors and consultants of the Group and encourage them for the continual operation and development of the Group, and attract excellent talent for further development of the Group.

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

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

During the year ended 31 December 2019, 15,374,599 awarded Shares were granted to the selected participants pursuant to the Share Award Scheme. Further details of the Share Award Scheme are set out in the announcement of the Company dated 17 December 2018.

REPORT OF THE DIRECTORS

SHARE AWARD SCHEME *(Continued)*

During the year ended 31 December 2019, 15,374,599 awarded shares granted on 26 September 2019 under the Share Award Scheme, the movements in the awarded shares of the Company during the year are set out as follows:

Category of Participants/Name	Number of awarded Shares				As at 31 December 2019
	As at 1 January 2019	Granted	Vested	Lapsed	
Directors					
Zhou Min	–	3,114,768	–	–	3,114,768
Li Haifeng	–	270,544	–	–	270,544
Zhang Tiefu	–	270,544	–	–	270,544
Tung Woon Cheung Eric	–	144,290	–	–	144,290
Li Li	–	1,241,088	–	–	1,241,088
Sub-total	–	5,041,234	–	–	5,041,234
Selected Participants					
In aggregate	–	10,333,365	–	–	10,333,365
Total	–	15,374,599	–	–	15,374,599

The grant of awarded shares to the Directors were obtained approval from INEDs during the year.

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



REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, so far as was known to the directors or chief executives of the Company, the following persons (not being a director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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

Name	Notes	Number of ordinary Shares held, capacity and nature of interest			Percentage of the Company's total number of issued share (Note 6)
		Beneficially owned	Through controlled corporation	Total	
Beijing Enterprises Environmental Construction Limited ("BE Environmental")		4,121,607,070	–	4,121,607,070	41.13%
Beijing Enterprises Holdings Limited ("BEHL")	(1)	–	4,121,607,070	4,121,607,070	41.13%
Modern Orient Limited ("MOL")	(2)	–	4,121,607,070	4,121,607,070	41.13%
Beijing Enterprises Investments Limited ("BEIL")	(2)	–	4,121,607,070	4,121,607,070	41.13%
Beijing Enterprises Group (BVI) Company Limited ("BE Group (BVI)")	(3)	–	4,121,607,070	4,121,607,070	41.13%
Beijing Enterprises Group Company Limited ("BEGCL")	(4)	–	4,121,607,070	4,121,607,070	41.13%
China Three Gorges Corporation ("CTG")	(5)	–	804,265,436	804,265,436	8.03%



REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

(Continued)

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

Notes:

- (1) The interest disclosed comprises the Shares owned by BE Environmental. BE Environmental beneficially holds 4,121,607,070 Shares (representing approximately 41.13% in the share capital of the Company). BE Environmental is a wholly-owned subsidiary of BEHL. Accordingly, BEHL is deemed to be interested in the Shares owned by BE Environmental.
- (2) The interest disclosed comprises the Shares owned by BEHL (through BE Environmental). MOL and BEIL are the immediate shareholders of BEHL and collectively hold approximately 20.90% of the issued share capital of BEHL. Accordingly, each of MOL and BEIL is deemed to be interested in the Shares owned by BEHL (through BE Environmental).
- (3) The interest disclosed comprises the Shares owned by BEIL and MOL (through BEHL and BE Environmental). BEHL is held directly as to approximately 41.06% by BE Group (BVI). MOL is a wholly owned subsidiary of BEIL, which is in turn directly held as to approximately 72.72% by BE Group (BVI). Accordingly, BE Group (BVI) is deemed to be interested in the Shares indirectly owned by BEIL and MOL (through BEHL and BE Environmental).
- (4) The interest disclosed comprises the Shares owned by BE Group (BVI) as detailed in note (3) above. BE Group (BVI) is a wholly-owned subsidiary of the BEGCL. Accordingly, BEGCL is deemed to be interested in the Shares indirectly owned by BE Group (BVI).
- (5) The interest disclosed comprises (i) 133,194,000 Shares owned by Three Gorges Capital Holdings (HK) Co., Limited, a direct wholly-owned subsidiary of 三峡资本控股有限责任公司 which is in turn directly held as to 70% by CTG and 10% by China Yangtze Power Co., Ltd. ("CYP"). CYP is directly held as to 57.92% by CTG and 4% by China Three Gorges Projects Developments Co., Ltd., a direct wholly-owned subsidiary of CTG; (ii) 200,422,000 Shares owned by China Yangtze Power International (Hongkong) Co., Ltd. ("CYPI"), a direct wholly-owned subsidiary of CYP; and (iii) 470,649,436 Shares owned by Yangtze Ecology and Environmental (HK) Investment Limited, a direct wholly-owned subsidiary of Yangtze Ecology and Environment Co., Ltd., which is in turn directly held as to 100% by CTG.
- (6) The percentage represented the number of Shares over the total issued Shares of the Company as at 31 December 2019 of 10,021,195,871 Shares.

Save as disclosed above, as at 31 December 2019, the Company had not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

REPORT OF THE DIRECTORS

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

Redemption of RMB2,000,000,000 3.6% Bonds Due 2021

For the year ended 31 December 2019, the Group redeemed and cancelled the two years prior to the maturity date RMB1,746,599,000 from the outstanding principal amount of RMB2,000,000,000 3.6% bonds due 2021 ("RMB Bonds") issued by a wholly-owned subsidiary of the Company and guaranteed by the Company at the redemption amount of RMB1,746,599,000 plus accrued interest which was paid. The amount of RMB253,401,000, being the outstanding amount of principal amount of the RMB Bonds, was scheduled to be redeemed on the maturity date in year 2021 as the bondholders did not register for the redemption within prescribed deadline.

Redemption of RMB1,800,000,000 3.0% Bonds Due 2021

For the year ended 31 December 2019, the Group redeemed and cancelled the two years prior to the maturity date the amount of RMB1,800,000,000 3.0% bonds due 2021 issued by the Company at the redemption amount of RMB1,800,000,000 plus accrued interest which was paid.

Redemption of RMB200,000,000 4.0% Bonds Due 2019

For the year ended 31 December 2019, the Group redeemed and cancelled on the maturity date the remaining principal amount of RMB200,000,000 4.0% bonds due 2019 guaranteed by a wholly-owned subsidiary of the Company and issued by a 60%-owned subsidiary of the Company at the redemption amount of RMB10,000,000 plus accrued interest which was paid.

Save as the above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2019.

EMOLUMENT POLICY

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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



REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

The Group entered into certain activities with parties regarded as “Related Parties” under applicable accounting principles. These mainly relate to the activities in the ordinary course of the Group’s business and were negotiated on normal commercial terms and an arm’s length basis. Certain transactions set out in note 54 to the financial statements are connected transactions as defined under the Listing Rules and were exempt and complied with the requirements of Chapter 14A of the Listing Rules. The disclosures required by Rule 14A.71 of the Listing Rules during the year are provided in the paragraph headed “Connected Transactions” as identified below.

CONNECTED TRANSACTIONS

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

(A) Connected Transaction

Subscription of new shares under specific mandate by BE Environmental

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

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

The gross proceeds and net proceeds from the subscription by BE Environmental were approximately HK\$548.0 million and approximately HK\$547.5 million (equivalent to a net subscription price of HK\$4.29 per ordinary share) respectively.

BE Environmental is a controlling shareholder of the Company and therefore a connected person under Chapter 14A of the Listing Rules. Accordingly, the subscription by BE Environmental constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. Details of the connected transaction can be found on the websites of the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(B) Continuing Connected Transaction

(a) *2018 Deposit Services Master Agreement*

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

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

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

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



REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(B) Continuing Connected Transaction *(Continued)*

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

Each of BEGCL and BEHL is a connected person of the Company under the Listing Rules by virtue of each being a substantial shareholder of the Company. As each of BEGCL and BEHL beneficially owns not less than 30% equity interest in BG Finance, BG Finance is an associate of each of BEGCL and BEHL, therefore, the entering into of the 2018 Deposit Services Master Agreement constitutes continuing connected transactions of the Company which is subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The above continuing connected transaction was carried out within the Annual Cap, details of which are set out in note 54 to the financial statements.

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

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

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms; and
- (c) 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.

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

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

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

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

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$1,653,000.

EQUITY-LINKED AGREEMENTS

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



REPORT OF THE DIRECTORS

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

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

Date of the Agreement(s)/ Issuance of Notes	Nature of the Agreement(s)/Notes	Aggregate amount (million)	Final Maturity	Specific performance obligations
8 November 2013	Note purchase agreement with an institutional investor	RMB2,000	November 2022	<i>Note 1</i>
29 April 2015 and 5 July 2017	Term loan facility with a bank	HK\$672	April 2020	<i>Note 1</i>
8 May 2015	Note purchase agreement with an institutional investor	HK\$700	May 2020	<i>Note 1</i>
27 November 2015	Term loan facility with a bank	HK\$3,000	November 2020	<i>Note 2</i>
28 December 2015	Term loan facilities with three banks	HK\$1,760	December 2020	<i>Note 2</i>
18 December 2017	Term loan facility with a bank	HK\$4,000	December 2022	<i>Note 2</i>
24 April 2018	Subscription agreement for issuance of bonds	US\$500	May 2023	<i>Note 1</i>
25 May 2018	Issuance of medium-term notes	RMB2,000	May 2023 <i>Note 4</i>	<i>Note 1</i>
		RMB1,000	May 2025 <i>Note 4</i>	<i>Note 1</i>
20 July 2018	Issuance of medium-term notes	RMB1,000	July 2023 <i>Note 4</i>	<i>Note 1</i>
		RMB2,000	July 2025 <i>Note 4</i>	<i>Note 1</i>
14 December 2018	Term loan facilities with various banks	AU\$210	Dec 2023	<i>Note 3</i>
11 January 2019	Issuance of medium-term notes	RMB1,000	Jan 2026 <i>Note 4</i>	<i>Note 1</i>
11 January 2019	Issuance of medium-term notes	RMB1,000	Jan 2029	<i>Note 1</i>

REPORT OF THE DIRECTORS

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER *(Continued)*

Notes:

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

* For identification purposes only

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



REPORT OF THE DIRECTORS

EQUITY FUNDS RAISING BY THE SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

Subscription of new Shares under specific mandate by CYPI

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

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

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

Net proceeds raised (approximately)	Intended use of proceeds (approximately)	Actual use of proceeds (approximately)
HK\$2,018.6 million	<ul style="list-style-type: none">(i) HK\$1,518.6 million for the investment in traditional water projects including “Build-Operate-Transfer” (“BOT”) and “Transfer-Operate-Transfer” (“TOT”) projects; and(ii) HK\$500.0 million for the construction of water environment comprehensive renovation projects.	<ul style="list-style-type: none">(i) HK\$505.0 million for the investment in traditional water projects including BOT and TOT projects;(ii) HK\$500.0 million for the construction of water environment comprehensive renovation projects; and(iii) HK\$1,013.6 million being maintained at bank and used as intended.

REPORT OF THE DIRECTORS

EQUITY FUNDS RAISING BY THE SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE *(Continued)*

Subscription of new Shares under specific mandate by BE Environmental

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

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

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

Net proceeds raised (approximately)	Intended use of proceeds (approximately)	Actual use of proceeds (approximately)
HK\$547.5 million	HK\$547.5 million for repayment of debts	HK\$547.5 million for repayment of debts

The Directors consider that the subscription by CYPI would deepen the partnership with China Three Gorges Corporation, an indirect holding company of CYPI, to develop water environmental protection business. The subscription by BE Environmental would accelerate the Company's growth by further strengthening the capital base and financial position (including liquidity and gearing positions) of the Company and laying down a more solid foundation for the future business development and expansion, including mergers and acquisitions.

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



REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company is committed to maintaining the quality of corporate governance so as to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value. During the year ended 31 December 2019, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules, with deviation mentioned below.

Code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend the annual general meeting of the Company. Due to other business engagements, the chairman of the Board did not attend the annual general meeting of the Company held on 31 May 2019. In his absence, the executive director and chief executive officer of the Company was invited to chair the annual general meeting and the member of nomination committee of the Company was invited to attend, and to answer shareholders' questions about the Group's matter.

The corporate governance report is set out on pages 31 to 44 of this annual report.

COMPLIANCE WITH THE MODEL CODE

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

AUDITORS

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

EVENT AFTER THE REPORTING PERIOD

Details of the significant event after the reporting period of the Group are set out in note 58 to the financial statements.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Group for the year ended 31 December 2019 were approved by the board of directors on 30 March 2020.

On behalf of the Board

Li Yongcheng
CHAIRMAN

30 March 2020

INDEPENDENT AUDITOR'S REPORT



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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

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

OPINION

We have audited the consolidated financial statements of Beijing Enterprises Water Group Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 85 to 258, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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



INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

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

Key audit matter

How our audit addressed the key audit matter

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

Revenue from the construction of sewage and reclaimed water treatment and water distribution plants under the terms of Build-Operate-Transfer ("BOT") contracts represented approximately 37% of total revenue for the year ended 31 December 2019 and was accounted for under HK(IFRIC) Interpretation 12 *Service Concession Arrangements*. The revenue was estimated on a cost-plus basis with reference to a prevailing market rate of profit margin at the date of the agreement applicable to similar construction services rendered in a similar location. The Group engaged an external valuer to support their estimation of the gross profit margin for the construction revenue. Significant management judgement was involved in determining the construction margins for these construction services.

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

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

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

The Group has significant receivables under service concession arrangements, trade and other receivables and amounts due from contract customers for an aggregate amount of approximately HK\$102.3 billion and represents 68% of the Group's total assets as at 31 December 2019.

The provision for expected credit losses ("ECL") carried as at 31 December 2019 was approximately HK\$689.2 million.

Management uses the general approach to calculate ECL for receivables under service concession arrangements, trade and other receivables and amounts due from contract customers.

Management has engaged an independent specialist to assist in the calculation of the ECL.

The Group considers the available information which includes information about past events, current conditions and forecasts of future economic conditions to estimate the ECL.

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

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

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

We obtained and reviewed the valuation established by management which is based on the relevant credit risk of the debtors and, with the aid of the external specialist, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

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



INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Goodwill impairment testing

Management is required to test goodwill for impairment at least on an annual basis. This test is largely based on management expectations, assumptions and estimates of future results of the cash-generating units to which the goodwill has been allocated. The Group engaged an external valuer to prepare the valuation models to assist with the impairment assessment. The assumptions are affected by expectations of future market or economic conditions. The impairment test is based on the recoverable amounts of the relevant cash-generating units, which is compared with their respective carrying values. As at 31 December 2019, the goodwill carried in the Group's financial statements was approximately HK\$4.0 billion.

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

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

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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



INDEPENDENT AUDITOR'S REPORT

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

Ernst & Young

Certified Public Accountants

30 March 2020



CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
REVENUE	6	28,192,464	24,596,857
Cost of sales		(18,025,661)	(15,820,917)
Gross profit		10,166,803	8,775,940
Interest income	6	695,662	422,183
Other income and gains, net	6	1,308,859	1,253,305
Administrative expenses		(2,499,597)	(2,206,376)
Other operating expenses, net		(619,224)	(275,808)
PROFIT FROM OPERATING ACTIVITIES	7	9,052,503	7,969,244
Finance costs	8	(2,432,792)	(2,104,563)
Share of profits and losses of:			
Joint ventures	20	551,395	454,565
Associates	21	384,986	459,664
PROFIT BEFORE TAX		7,556,092	6,778,910
Income tax expense	11	(1,713,503)	(1,548,890)
PROFIT FOR THE YEAR		5,842,589	5,230,020
ATTRIBUTABLE TO:			
Shareholders of the Company		4,925,718	4,471,265
Holders of perpetual capital instruments		234,830	246,012
Non-controlling interests		682,041	512,743
		5,842,589	5,230,020
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	13		
– Basic		HK49.77 cents	HK47.91 cents
– Diluted		HK49.04 cents	HK47.13 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
PROFIT FOR THE YEAR		5,842,589	5,230,020
OTHER COMPREHENSIVE LOSS			
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange fluctuation reserve:			
– Translation of foreign operations		(907,007)	(2,531,013)
– Release upon disposal of subsidiaries	48	(372)	46
		(907,379)	(2,530,967)
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>			
– Share of other comprehensive loss of a joint venture		(3,786)	(7,939)
– Changes in fair value of equity investments designated at fair value through other comprehensive income		2,380	(257,019)
		(1,406)	(264,958)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX		(908,785)	(2,795,925)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		4,933,804	2,434,095
ATTRIBUTABLE TO:			
Shareholders of the Company		4,245,618	2,218,652
Holders of perpetual capital instruments		134,929	(26,170)
Non-controlling interests		553,257	241,613
		4,933,804	2,434,095



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	14	4,166,073	4,222,798
Right-of-use assets	16	754,286	–
Investment properties	15	806,785	1,052,492
Goodwill	17	4,032,698	3,803,072
Operating concessions	18	4,862,357	3,914,362
Other intangible assets	19	247,513	145,780
Investments in joint ventures	20	7,976,242	7,282,927
Investments in associates	21	5,262,302	4,408,675
Equity investments designated at fair value through other comprehensive income	23	1,404,379	1,362,679
Financial assets at fair value through profit or loss	22	80,258	97,854
Amounts due from contract customers	26	46,646,874	34,722,560
Receivables under service concession arrangements	18	32,033,313	27,612,518
Trade receivables	27	4,638,425	2,903,593
Prepayments, deposits and other receivables	28	2,650,265	2,597,895
Deferred tax assets	42	347,683	277,075
Total non-current assets		115,909,453	94,404,280
Current assets:			
Non-current assets held for sale	24	328,517	316,488
Inventories	25	243,074	225,517
Amounts due from contract customers	26	2,988,428	3,008,591
Receivables under service concession arrangements	18	3,815,388	3,252,496
Trade receivables	27	6,324,510	4,196,758
Prepayments, deposits and other receivables	28	9,178,814	7,382,082
Restricted cash and pledged deposits	30	212,827	656,849
Cash and cash equivalents	30	12,159,915	12,937,647
Total current assets		35,251,473	31,976,428
TOTAL ASSETS		151,160,926	126,380,708

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	31	1,002,120	941,299
Reserves	34	29,546,330	24,548,238
		30,548,450	25,489,537
Perpetual capital instruments	35	6,250,999	6,350,900
Non-controlling interests		9,731,727	5,971,700
		15,982,726	12,322,600
TOTAL EQUITY		46,531,176	37,812,137
Non-current liabilities:			
Other payables and accruals	44	1,040,162	595,488
Bank and other borrowings	36	30,353,035	27,781,560
Corporate bonds	37	16,598,747	16,233,214
Notes payable	38	2,245,023	2,978,957
Finance lease payables	39	–	311,418
Lease liabilities	16	394,435	–
Provision for major overhauls	40	242,562	210,949
Deferred income	41	1,297,695	1,396,589
Deferred tax liabilities	42	3,480,180	2,543,849
Total non-current liabilities		55,651,839	52,052,024
Current liabilities:			
Trade payables	43	26,892,990	17,872,645
Other payables and accruals	44	8,972,912	8,885,441
Income tax payables		1,294,006	1,035,716
Bank and other borrowings	36	9,023,192	4,291,839
Corporate bonds	37	1,966,157	4,341,192
Notes payable	38	699,746	–
Finance lease payables	39	–	89,714
Lease liabilities	16	128,908	–
Total current liabilities		48,977,911	36,516,547
TOTAL LIABILITIES		104,629,750	88,568,571
TOTAL EQUITY AND LIABILITIES		151,160,926	126,380,708

Li Yongcheng
Director

Zhou Min
Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

Attributable to shareholders of the Company																	
		Issued capital	Share premium account	Contributed surplus	Shares held under share award scheme	Share option and share award reserve	Capital reserve	Property revaluation reserve	Fair value reserve	Defined benefit plan reserve	Exchange fluctuation reverse	PRC reserve funds	Retained profits	Total	Perpetual capital instruments	Non-controlling interests	Total equity
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(note 33)	(note 34(b))						(note 34(c))					
At 1 January 2019		941,299	-	8,413,729	-	254,178	(90,564)	122,482	87,456	(54,678)	(3,194,333)	1,597,788	17,412,180	25,489,537	6,350,900	5,971,700	37,812,137
Profit for the year		-	-	-	-	-	-	-	-	-	-	-	4,925,718	4,925,718	234,830	682,041	5,842,589
Other comprehensive income/(loss) for the year:																	
Exchange differences related to foreign operations		-	-	-	-	-	-	-	-	-	(678,322)	-	-	(678,322)	(99,901)	(128,784)	(907,007)
Release upon disposal of subsidiaries	48	-	-	-	-	-	-	-	-	-	(372)	-	-	(372)	-	-	(372)
Share of other comprehensive loss of a joint venture		-	-	-	-	-	-	-	-	(3,786)	-	-	-	(3,786)	-	-	(3,786)
Changes in fair value of equity investments designated at fair value through other comprehensive income		-	-	-	-	-	-	-	2,380	-	-	-	-	2,380	-	-	2,380
Total comprehensive income/(loss) for the year		-	-	-	-	-	-	-	2,380	(3,786)	(678,694)	-	4,925,718	4,245,618	134,929	553,257	4,933,804
Issue of shares	31	59,840	2,507,284	-	-	-	-	-	-	-	-	-	-	2,567,124	-	-	2,567,124
Exercise of share options	31	981	29,899	-	-	(8,869)	-	-	-	-	-	-	-	22,011	-	-	22,011
Equity-settled share award arrangements	33(b)	-	-	-	-	27,244	-	-	-	-	-	-	-	27,244	-	-	27,244
Shares purchased for the share award scheme	33	-	-	-	(110,014)	-	-	-	-	-	-	-	-	(110,014)	-	-	(110,014)
Acquisition of subsidiaries	47	-	-	-	-	-	-	-	-	-	-	-	-	-	-	136,909	136,909
Acquisition of non-controlling interests		-	-	-	-	-	(41,982)	-	-	-	-	-	-	(41,982)	-	(76,741)	(118,723)
Share of reserves of associates		-	-	-	-	3,746	404,831	-	-	-	-	-	-	408,577	-	-	408,577
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(128,398)	(128,398)
Capital contributions from non-controlling equity holders		-	-	-	-	-	(156,794)	-	-	-	-	-	-	(156,794)	-	3,275,000	3,118,206
Distributions paid to holders of perpetual capital instruments	35	-	-	-	-	-	-	-	-	-	-	-	-	-	(234,830)	-	(234,830)
Final 2018 cash distributions paid		-	-	(830,945)	-	-	-	-	-	-	-	-	-	(830,945)	-	-	(830,945)
Interim 2019 cash distributions paid	12	-	-	(1,071,926)	-	-	-	-	-	-	-	-	-	(1,071,926)	-	-	(1,071,926)
Transfer to reserves		-	-	-	-	-	-	-	-	-	-	528,375	(528,375)	-	-	-	-
At 31 December 2019		1,002,120	2,537,183*	6,510,858*	(110,014)*	276,299*	115,491*	122,482*	89,836*	(58,464)*	(3,873,027)*	2,126,163*	21,809,523*	30,548,450	6,250,999	9,731,727	46,531,176

* These reserve accounts comprise the consolidated reserves of HK\$29,546,330,000 (2018: HK\$24,548,238,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

Notes	Attributable to shareholders of the Company												Perpetual capital instruments	Non-controlling interests	Total equity
	Issued capital	Share premium account	Contributed surplus	Share option reserve	Capital reserve	Property revaluation reserve	Fair value reserve	Defined benefit plan reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(note 34(b))						(note 34(c))					
At 1 January 2018	879,382	5,068,783	1,396,556	244,199	(210,395)	122,482	344,475	(46,739)	(1,206,678)	1,257,915	13,276,086	21,126,066	6,623,082	5,626,879	33,376,027
Profit for the year	-	-	-	-	-	-	-	-	-	-	4,471,265	4,471,265	246,012	512,743	5,230,020
Other comprehensive income/(loss) for the year:															
Exchange differences related to foreign operations	-	-	-	-	-	-	-	-	(1,987,701)	-	-	(1,987,701)	(272,182)	(271,130)	(2,531,013)
Release upon disposal of subsidiaries	48	-	-	-	-	-	-	-	46	-	-	46	-	-	46
Share of other comprehensive loss of a joint venture	-	-	-	-	-	-	-	(7,939)	-	-	-	(7,939)	-	-	(7,939)
Changes in fair value of equity investments designated at fair value through other comprehensive income	-	-	-	-	-	-	(257,019)	-	-	-	-	(257,019)	-	-	(257,019)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	(257,019)	(7,939)	(1,987,655)	-	4,471,265	2,218,652	(26,170)	241,613	2,434,095
Transfer to contributed surplus**	31	-	(8,617,313)	8,617,313	-	-	-	-	-	-	-	-	-	-	-
Issue of shares	31	61,949	3,553,021	-	-	-	-	-	-	-	-	3,614,970	-	-	3,614,970
Exercise of share options	31	258	7,729	(2,199)	-	-	-	-	-	-	-	5,788	-	-	5,788
Shares repurchased and cancelled	31	(290)	(12,220)	-	-	-	-	-	-	-	-	(12,510)	-	-	(12,510)
Equity-settled share option arrangements	32(a)	-	-	4,688	-	-	-	-	-	-	-	4,688	-	-	4,688
Acquisition of subsidiaries	47	-	-	-	-	-	-	-	-	-	-	-	-	63,432	63,432
Acquisition of non-controlling interests	-	-	-	-	6,250	-	-	-	-	-	-	6,250	-	(78,965)	(72,715)
Share of reserves of an associate	-	-	-	7,490	130,327	-	-	-	-	-	-	137,817	-	-	137,817
Disposal of subsidiaries	48	-	-	-	-	-	-	-	-	-	-	-	-	(91,466)	(91,466)
Disposal of partial interests in subsidiaries	-	-	-	-	(12,044)	-	-	-	-	-	-	(12,044)	-	-	(12,044)
Deregistration of subsidiaries	-	-	-	-	(4,702)	-	-	-	-	-	4,702	-	-	-	-
Dividends paid to non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(121,667)	(121,667)
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	331,874	331,874
Distributions paid to holders of perpetual capital instruments	35	-	-	-	-	-	-	-	-	-	-	-	(246,012)	-	(246,012)
Final 2017 cash distributions paid	-	-	(705,944)	-	-	-	-	-	-	-	-	(705,944)	-	-	(705,944)
Interim 2018 cash distributions paid	12	-	(894,196)	-	-	-	-	-	-	-	-	(894,196)	-	-	(894,196)
Transfer to reserves	-	-	-	-	-	-	-	-	-	339,873	(339,873)	-	-	-	-
At 31 December 2018	941,299	-*	8,413,729*	254,178*	(90,564)*	122,482*	87,456*	(54,678)*	(3,194,333)*	1,597,788*	17,412,180*	25,489,537	6,350,900	5,971,700	37,812,137

** Pursuant to a resolution passed at the special general meeting held on 10 December 2018, an amount of approximately HK\$8,617,313,000 was transferred from the share premium account to the contributed surplus. Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its shareholders out of the contributed surplus under certain circumstances.



CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		7,556,092	6,778,910
Adjustments for:			
Bank interest income	6	(202,459)	(267,179)
Interest income on trade and other receivables with extended credit periods	6	(282,647)	(135,875)
Interest income from joint venture partners	6	(189,466)	–
Interest income on loans to joint ventures	6	(21,090)	(19,129)
Gain on disposal of a service concession arrangement	6	–	(37,892)
Fair value gain on investment properties	6	(2,785)	(13,922)
Gain on bargain purchase of subsidiaries	6	(78,275)	(115,463)
Loss/(gain) on disposal of subsidiaries, net	7	(33,126)	67,159
Loss on deregistration of subsidiaries	7	–	15,541
Gain on disposal of joint ventures	6	–	(2,736)
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	7	50,455	1,641
Depreciation of property, plant and equipment	7	269,253	244,767
Amortisation of operating concessions	7	255,591	246,873
Amortisation of other intangible assets	7	20,384	17,519
Impairment of receivables under service concession arrangements, net	7	64,733	3,086
Impairment of amounts due from contract customers	7	16,490	79,155
Impairment of trade receivables, net	7	19,124	31,218
Impairment/(reversal of impairment) of other receivables, net	7	70,566	(32,226)
Provision for major overhauls	7	175,178	139,100
Loss on disposal of items of property, plant and equipment	7	894	1,145
Equity-settled share award expense	7	27,244	–
Equity-settled share option expense	7	–	4,688
Finance costs	8	2,677,021	2,260,417
Share of profits and losses of joint ventures		(551,395)	(454,565)
Share of profits and losses of associates		(384,986)	(459,664)
Operating profit before working capital changes		9,456,796	8,352,568

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	<i>Note</i>	2019 HK\$'000	2018 HK\$'000
Operating profit before working capital changes		9,456,796	8,352,568
Increase in inventories		(18,321)	(64,011)
Increase in amounts due from contract customers		(11,456,120)	(13,848,253)
Increase in receivables under service concession arrangements		(3,201,303)	(4,891,993)
Increase in trade receivables		(3,735,914)	(2,571,625)
Increase in prepayments, deposits and other receivables		(2,758,718)	(863,535)
Increase in trade payables		8,667,132	6,738,568
Increase/(decrease) in other payables and accruals		(393,720)	2,317,581
Utilisation of provision for major overhauls	40	(164,862)	(175,097)
Cash used in operations		(3,605,030)	(5,005,797)
Mainland China corporate income tax paid		(579,418)	(538,794)
Overseas taxes paid		(46,240)	(28,394)
Net cash flows used in operating activities		(4,230,688)	(5,572,985)



CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	(483,500)	(542,535)
Additions of operating concessions	18	(915,182)	(387,975)
Additions of other intangible assets	19	(125,579)	(65,987)
Acquisition of subsidiaries	47	(930,672)	(1,073,351)
Payment for acquisition of a subsidiary in the prior year		(279,011)	–
Disposal of subsidiaries	48	1,169	(8,601)
Proceed from disposal of a subsidiary in the prior year		785,270	–
Proceeds from disposal of joint ventures		–	6,862
Prepayment for the acquisition of subsidiaries		–	(83,276)
Proceeds from disposal of items of property, plant and equipment		74,038	6,424
Acquisition of/increase in investments in joint ventures		(1,023,868)	(1,095,434)
Acquisition of/increase in investments in associates		(26,574)	(5,682)
Purchases of equity investments designated at fair value through other comprehensive income		(30,392)	(8,806)
Decrease in time deposits with maturity of more than three months when acquired		262,471	409,787
Decrease/(increase) in restricted cash and pledged deposits		444,022	(610,699)
Redemption of asset-backed note	22	16,239	16,301
Dividends received from joint ventures		166,803	158,673
Dividends received from associates		–	2,628
Bank interest received		202,459	267,179
Net cash flows used in investing activities		(1,862,307)	(3,014,492)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		3,118,206	331,874
Acquisition of non-controlling interests		(118,723)	(72,715)
Issue of corporate bonds		2,223,915	10,700,342
Repayment of corporate bonds		(4,007,925)	(3,980,366)
Distributions to holders of perpetual capital instruments	35	(234,830)	(246,012)
New bank and other borrowings		16,119,748	10,946,088
Repayment of bank and other borrowings		(9,235,050)	(4,887,099)
Proceeds from exercise of share options		22,011	5,788
Proceeds from issue of shares		2,567,124	3,614,970
Shares repurchased		–	(12,510)
Shares purchased for the share award scheme		(110,014)	–
Proceeds received under sale and leaseback transactions		–	16,190
Principal portion of lease payments/finance lease rental payments		(113,526)	(96,078)
Interest paid		(2,601,430)	(2,136,586)
Interest element of finance lease rental payments		–	(25,601)
Distributions paid		(1,902,871)	(1,600,140)
Dividends paid to non-controlling equity holders		(128,398)	(121,667)
Decrease in bank deposits that require approval of a bank for any withdrawal		–	603,874
Net cash flows from financing activities		5,598,237	13,040,352
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		12,608,335	8,595,856
Effect of foreign exchange rate changes, net		(20,503)	(440,396)
CASH AND CASH EQUIVALENTS AT END OF YEAR		12,093,074	12,608,335



CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	<i>Note</i>	2019 HK\$'000	2018 HK\$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	30	12,159,915	12,937,647
Less: Time deposits with maturity of more than three months when acquired		(66,841)	(329,312)
Cash and cash equivalents as stated in the consolidated statement of cash flows		12,093,074	12,608,335

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
深圳北控創新投資有限公司	PRC/Mainland China	RMB300,000,000	–	100	Sewage treatment
深圳北控豐泰投資有限公司	PRC/Mainland China	RMB70,000,000	–	100	Sewage treatment
綿陽中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
廣州中業污水處理有限公司	PRC/Mainland China	RMB85,000,000	–	100	Sewage treatment
江油中科成污水淨化有限公司	PRC/Mainland China	RMB8,000,000	–	100	Sewage treatment
成都雙流中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島膠南中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島中科成污水淨化有限公司	PRC/Mainland China	RMB20,000,000/ RMB96,679,640	–	100	Sewage treatment



NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
廣州中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
台州市路橋中科成污水淨化有限公司	PRC/Mainland China	RMB55,500,000	–	100	Sewage treatment
成都龍泉中科成污水淨化有限公司	PRC/Mainland China	RMB27,600,000	–	100	Sewage treatment
荷澤中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
濟南中科成水質淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
彭州中科成污水淨化有限公司	PRC/Mainland China	RMB28,000,000	–	100	Sewage treatment
佛山市三水中科成水質淨化有限公司	PRC/Mainland China	RMB76,000,000	–	100	Sewage treatment
永州市北控污水淨化有限公司 ^Q	PRC/Mainland China	HK\$85,630,000	100	–	Sewage treatment
清鎮市北控水務有限公司	PRC/Mainland China	RMB26,500,000	–	60	Sewage treatment
海南北控水務有限公司	PRC/Mainland China	RMB5,000,000	–	100	Sewage treatment
昆明空港北控水務有限公司	PRC/Mainland China	RMB53,090,000	–	100	Sewage treatment
玉溪北控城投水質淨化有限公司	PRC/Mainland China	RMB91,380,000	–	100	Sewage treatment
北控水務集團(海南)有限公司	PRC/Mainland China	RMB100,000,000	–	90	Sewage treatment
百色中環水業有限公司 ^Q	PRC/Mainland China	HK\$20,000,000	–	100	Sewage treatment
齊齊哈爾市北控污水淨化有限公司	PRC/Mainland China	RMB56,000,000	–	100	Sewage treatment
錦州市北控水務有限公司 ^Q	PRC/Mainland China	RMB127,178,541	80	–	Sewage treatment and reclaimed water treatment
廣西貴港北控水務有限公司	PRC/Mainland China	RMB33,184,898	–	43.56*	Sewage treatment and water distribution
Be Water S.A.	Portugal	€11,987,000	–	100	Sewage treatment and water distribution
北京北控污水淨化及回用有限公司	PRC/Mainland China	RMB26,360,000	–	100	Reclaimed water treatment

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
成都北控蜀都投資有限公司 ("Beikong Shudu")	PRC/Mainland China	RMB852,750,000	–	68.5	Construction services and sewage treatment
北京建工環境發展有限責任公司 ("BCEG Environmental")	PRC/Mainland China	RMB690,000,000	–	60	Construction services and investment holding
BEWG (M) Sdn Bhd	Malaysia	MYR75,000,000	–	100	Construction services
昆明捷運泰富環保工程有限公司 ^Q	PRC/Mainland China	RMB100,000,000	–	70	Construction services
昆明捷運路橋發展有限公司 ^Q	PRC/Mainland China	RMB150,000,000	–	70	Construction services
北控(洛陽)水環境開發有限公司 ^Q	PRC/Mainland China	RMB300,000,000	–	100	Construction services
北京北控淨都水環境治理有限公司 ^Q	PRC/Mainland China	RMB150,000,000/ RMB250,000,000	–	100	Construction services
佛山北控水環境開發有限公司 ^Q	PRC/Mainland China	RMB100,000,000	–	70	Construction services
簡陽鴻琛建設工程有限公司	PRC/Mainland China	RMB250,000,000	–	60	Construction services
濱州北控西海水務有限公司	PRC/Mainland China	RMB50,000,000	–	83.8	Water distribution
遵義北控水務有限公司 ^Q	PRC/Mainland China	RMB50,236,000	80	–	Water distribution
德清達闊制水有限公司 ^Q	PRC/Mainland China	US\$11,960,000	–	100	Water distribution
BEWGI-UE NEWater (S) Pte Ltd	Singapore	SGD100,000	–	80	Reclaimed water treatment
泉州安平供水有限公司 ^Q	PRC/Mainland China	US\$6,600,000	–	100	Water distribution
雲南北控水務有限公司	PRC/Mainland China	RMB180,000,000	–	100	Investment holding
北控中科成環保集團有限公司	PRC/Mainland China	RMB417,969,071	–	100	Consultancy services and investment holding
南京市市政設計研究院有限責任公司	PRC/Mainland China	RMB60,000,000	–	99.172	Consultancy services



NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
北控水務(中國)投資有限公司 ^a	PRC/Mainland China	US\$500,000,000	100	–	Investment holding and consultancy services
上海北控亞同水務投資有限公司	PRC/Mainland China	RMB100,000,000	–	100	Investment holding
北控(鞍山)水務有限公司	PRC/Mainland China	RMB65,000,000	–	70	Sewage treatment
阜新市北控水務有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
北控(洛陽)水務發展有限公司	PRC/Mainland China	RMB800,000,000	–	70	Sewage treatment
廣東鶴山北控水務有限公司	PRC/Mainland China	RMB78,330,000	–	70	Water distribution
金堂北控水環境治理有限公司	PRC/Mainland China	RMB30,000,000	–	67	Construction services
成都青白江中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
錦州市小凌河北控水務有限公司	PRC/Mainland China	RMB33,250,000/ RMB66,500,000	–	100	Sewage treatment
廣安北控廣和水務有限公司	PRC/Mainland China	RMB70,000,000	–	100	Water distribution
北京稻香水質淨化有限公司	PRC/Mainland China	RMB58,000,000	–	100	Reclaimed water treatment
東莞市德高水務有限公司 ^a	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
四川省彭州市自來水有限公司	PRC/Mainland China	RMB73,600,000	–	70	Water distribution
北控南陽水務集團有限公司	PRC/Mainland China	RMB102,626,900/ RMB156,626,900	–	67	Water distribution
永州市水務運營發展有限責任公司	PRC/Mainland China	RMB309,285,300/ RMB473,213,300	–	49*	Water distribution
成都北控陽安水環境治理有限公司	PRC/Mainland China	RMB567,000,000	–	57	Construction services
北控(濟源)污水淨化有限公司	PRC/Mainland China	RMB166,330,000	–	100	Sewage treatment
琪縣北控供水有限公司	PRC/Mainland China	RMB10,000,000	–	80	Water distribution
淮安市水利勘測設計研究院有限公司	PRC/Mainland China	RMB10,000,000	–	70	Consultancy service

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
平陰北控水環境開發有限公司	PRC/Mainland China	RMB280,000,000	–	90	Construction services
鄒平北控水務有限公司	PRC/Mainland China	RMB407,200,000	–	60	Water distribution
濰州北控環保工程投資有限公司	PRC/Mainland China	RMB100,000,000	–	90	Construction services
內蒙古科源水務有限公司	PRC/Mainland China	RMB177,100,000	–	67	Water distribution
北控(成都雙流)水務有限公司	PRC/Mainland China	RMB171,706,000/ RMB194,268,000	–	100	Sewage treatment
廣州增城北控水處理有限公司	PRC/Mainland China	RMB190,000,000	–	90	Sewage treatment
北控(杭州)環境工程有限公司 [□]	PRC/Mainland China	RMB687,000,000	99.7	–	Construction services
TRILITY Group PTY Ltd. ("Trility")	Australia	AUD209,100,000	–	100	Investment holding
廣州增城北控水質淨化有限公司 [◇]	PRC/Mainland China	RMB85,740,000	–	99.9	Sewage treatment
衡水京成水環境有限公司 [◇]	PRC/Mainland China	RMB242,234,996/ RMB249,726,800	–	99	Construction services
攀枝花北控水務有限公司 [◇]	PRC/Mainland China	RMB100,000,000	–	65	Sewage treatment

[□] *These entities are registered as wholly-foreign-owned enterprises under PRC law*

[◇] *Acquired/incorporated during the year*

^{*} *These entities are accounted for as a subsidiary by virtue of the Company's control over their board of directors, which is the highest authority in these entities*

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

(b) *Controlled special purpose entity*

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

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

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

2. BASIS OF PRESENTATION

Despite that the Group had net current liabilities of HK\$13.7 billion and capital commitments of approximately HK\$21.4 billion (comprising the Group's capital commitments and the Group's share of joint ventures' own capital commitments) in aggregate as at 31 December 2019, as detailed in note 53 to the financial statements, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group's cash flow projection which, inter alia, has taken into account the historical operating performance of the Group and the following:

- (a) the existing banking facilities available to the Group as at 31 December 2019 and on the assumption that such facilities will continue to be available from the Group's principal bankers;
- (b) certain of the above-mentioned total capital commitments are expected to be fulfilled by the Group after 2020 with reference to the terms of the respective agreements and the current status of the respective projects; and
- (c) the Company will consider equity financing when necessary.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.1 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.

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9
HKFRS 16

Amendments to HKAS 19

Amendments to HKAS 28

HK(IFRIC)-Int 23

Annual Improvements to

HKFRSs 2015-2017 Cycle

Prepayment Features with Negative Compensation

Leases

Plan Amendment, Curtailment or Settlement

Long-term Interests in Associates and Joint Ventures

Uncertainty over Income Tax Treatments

Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(a) *(Continued)*

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property, machinery, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of HK\$493,365,000 that were reclassified from property, plant and equipment.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(a) *(Continued)*

As a lessee – Leases previously classified as operating leases *(Continued)*

Impact on transition *(Continued)*

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities at 1 January 2019

As a lessee – Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under HKAS 17.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) HK\$'000
Assets	
Decrease in property, plant and equipment	(493,365)
Increase in right-of-use assets	654,537
Increase in total assets	161,172
Liabilities	
Increase in lease liabilities	562,304
Decrease in finance lease payables	(401,132)
Increase in total liabilities	161,172



NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(a) *(Continued)*

Financial impact at 1 January 2019 *(Continued)*

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	<i>HK\$'000</i>
Operating lease commitments as at 31 December 2018	173,425
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(2,420)
	171,005
Weighted average incremental borrowing rate as at 1 January 2019	4.9%
Discounted operating lease commitments as at 1 January 2019	161,172
Add: Finance lease liabilities recognised as at 31 December 2018	401,132
Lease liabilities as at 1 January 2019	562,304

- (b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

- (c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Definition of a Business¹</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
HKFRS 17	<i>Insurance Contracts²</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material¹</i>

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

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

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

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.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in joint operations

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

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

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

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

Related parties

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

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

or



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

Business combinations and goodwill

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 June (2018: 30 June). For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

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

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

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

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

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

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment property

Investment property is an interest in land and buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the end of the reporting period.

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019)

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

Group as a lessee

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

(a) Right-of-use assets

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

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

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessee (Continued)

(b) Lease liabilities

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

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

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

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

Group as a lessor

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessor (Continued)

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

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

Leases (applicable before 1 January 2019)

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

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

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements

Consideration given by the grantor

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

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

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 or upgrade services

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

Operating services

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

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

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

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

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

Operating concessions

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

Patents

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

Computer software

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Initial recognition and measurement (Continued)

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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

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

Financial assets at fair value through profit or loss

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 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 risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

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).

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

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

The Group's financial liabilities include trade and other payables, bank and other borrowings, corporate bonds, notes payable and lease liabilities (2018: finance lease payables).

Subsequent measurement

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Financial guarantee contracts

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedge accounting *(Continued)*

Initial recognition and subsequent measurement (Continued)

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

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

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

Cash flow hedges

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

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

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedge accounting *(Continued)*

Current versus non-current classification

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

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

Non-current assets held for sale

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

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

Inventories

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

Treasury shares

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract assets

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

Contract liabilities

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

Contract costs

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

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

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Cash and cash equivalents

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Perpetual capital instruments

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

Provisions

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

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

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

Income tax

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

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

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

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

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the surveyors' assessment of work performed and the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

When the Group provides more than one service in a service concession arrangement, the transaction price will be allocated to each performance obligation by reference to their relative stand-alone selling prices. If the standalone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

(a) Construction services

The Group's performance in respect of construction services creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the surveyors' assessment of work performed and the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

Revenue from the construction services under a service concession arrangement is estimated on a cost plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered.

(b) Sewage and reclaimed water treatment services and technical and consultancy services

The Group recognises revenue from sewage and reclaimed water treatment services and technical and consultancy services, upon the transfer of outcome of the customers. The performance obligation is satisfied upon delivery of the related service outcome of the customers.

(c) Sale of water and machineries

Revenue from the sale of water and machineries is recognised at the point in time when control of the asset is transferred to the customer, generally when the customer obtains the physical possession or the legal title of the water or completed machineries and the Group has a present right to payment and the collection of the consideration is probable.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity compensation benefits

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

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

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

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

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

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity compensation benefits *(Continued)*

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

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account.

Options which are cancelled prior to their exercise date or lapse are deleted from the register of outstanding options. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits as a movement in reserves.

Shares held under the share award scheme

As disclosed in note 33 to the financial statements, the Group has set up a trust for the share award scheme, where the trust purchases shares issued by the Group, and the consideration paid by the Company, including any directly attributable incremental costs, is presented as “Shares held under share award scheme” and deducted from the Group’s equity.

Other employee benefits

Defined contribution plans

The employees of the Group’s subsidiaries which operate in Mainland China, Singapore, Portugal and Malaysia are required to participate in central pension schemes operated by the local governments, the assets of which are held separately from those of the Group. Contributions are made by the subsidiaries based on a percentage of the participating employees’ salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension schemes. The employer contributions vest fully once made.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

Defined benefit plan

Employees of a joint venture can enjoy other retirement benefits after retirement such as supplementary medical reimbursement, allowance and beneficiary benefits pursuant to a defined benefit plan of the joint venture. These benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method and is charged to the statement of profit or loss so as to spread the costs over the average service lives of the relevant employees in accordance with the actuarial report which contains valuation of the obligations for the year. The obligation is measured at the present value of the estimated future cash outflows using the interest rates of the PRC government bonds which have terms similar to those of related liabilities. Actuarial gains and losses are recognised in other comprehensive income immediately when they arise.

The past service costs are recognised as an expense on the straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, the pension plan, past service costs are recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled.

Borrowing costs

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

Dividends

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain Hong Kong, Mainland China and overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong 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 and statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of the exchange fluctuation reserve relating to that particular foreign operation is recognised in the statement of profit or loss.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Construction work and service contracts

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

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

Classification between operating concessions and receivables under service concession arrangements

As explained in note 3.4 to the financial statements, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at their fair values.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, future guaranteed receipts and non-guaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2019 were HK\$4,862,357,000 (2018: HK\$3,914,362,000) and HK\$35,848,701,000 (2018: HK\$30,865,014,000), respectively, further details of which are set out in note 18 to the financial statements.

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

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

The construction margin is determined based on the gross profit margins of market comparables by identifying relevant peer groups, which are listed on various stock exchanges in the world. Criteria for selection include:

- (i) the peer firm must be in the field of the construction of infrastructure, majoring in sewage and reclaimed water treatment and seawater desalination facilities in the PRC; and
- (ii) information of the peer firm must be available and from a reliable source.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the relevant business units to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The total carrying amount of goodwill as at 31 December 2019 was HK\$4,032,698,000 (2018: HK\$3,803,072,000) in aggregate, details of which are set out in note 17 to the financial statements.

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

The carrying amounts of items of property, plant and equipment, and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 3.4 to the financial statements. The recoverable amount is the higher of its fair value less costs of disposal and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

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

The policy for provision for expected credit losses on receivables under service concession arrangements, amounts due from contract customers, trade receivables and other receivables of the Group is based on an ECL model. A considerable amount of estimation is required in assessing the available information which includes information about past events, current conditions and forecasts future economic conditions to estimate the ECL. The carrying amounts of receivables under service concession arrangements, amounts due from contract customers, trade receivables and other receivables other than prepayments carried as assets in the consolidated statement of financial position as at 31 December 2019 were HK\$35,848,701,000 (2018: HK\$30,865,014,000), HK\$49,635,302,000 (2018: HK\$37,731,151,000), HK\$10,962,935,000 (2018: HK\$7,100,351,000) and HK\$5,803,403,000 (2018: HK\$6,653,329,000), respectively, further details of which are set out in notes 18, 26, 27 and 28 to the financial statements.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China, Portugal, Malaysia, Singapore and Australia. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as a liability in the consolidated statement of financial position as at 31 December 2019 was HK\$1,294,006,000 (2018: HK\$1,035,716,000).

Deferred tax assets relating to certain deductible temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried as assets and liabilities in the consolidated statement of financial position as at 31 December 2019 were HK\$347,683,000 (2018: HK\$277,075,000) and HK\$3,480,180,000 (2018: HK\$2,543,849,000), respectively, details of which are set out in note 42 to the financial statements.

Classification of investments in funds

The Group has invested in funds as an intermediate or deferred limited partner. The directors of the Company assessed whether or not the Group has control, joint control or significant influence over these funds based on whether the Group has the practical ability to direct the relevant activities of these funds to affect the returns. In making the judgement, the directors considered whether the Group has power to direct the relevant activities of the funds (e.g., investment and operation decisions, approval of budgets of the fund) in the partners' meeting, investment committee meetings or any other management committee (if any), and whether the Group is exposed to variable returns from its involvement in the funds. After the assessment, the directors concluded that the Group has joint control over the funds, further details of the investments in the funds are set out in note 20 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. OPERATING SEGMENT INFORMATION

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

- (a) the sewage and reclaimed water treatment and construction services segment engages in the construction and operation of sewage and reclaimed water treatment plants and the provision of construction services for comprehensive renovation projects;
- (b) the water distribution services segment engages in the distribution and sale of piped water and the provision of related services; and
- (c) the technical and consultancy services and sale of machineries segment engages in the provision of consultancy services and sale of machineries related to sewage treatment, construction services for comprehensive renovation projects, and the licensing of technical know-how related to sewage treatment.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the year attributable to shareholders of the Company. The profit for the year attributable to shareholders of the Company is measured consistently with the Group's profit attributable to shareholders of the Company except that interest income on loans to joint ventures, interest income from joint venture partners, gain on bargain purchase of subsidiaries, gain or loss on disposal of subsidiaries and joint ventures, finance costs, share of profits of certain joint ventures and associates, as well as head office and corporate income and expenses are excluded from such measurement.

Segment assets exclude corporate and head office assets as these assets are managed on a group basis.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2019

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sale of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue (note 6)	23,019,257	2,598,664	2,574,543	28,192,464
Cost of sales	(15,412,163)	(1,352,313)	(1,261,185)	(18,025,661)
Gross profit	7,607,094	1,246,351	1,313,358	10,166,803
Segment results:				
The Group	7,538,309	1,194,897	929,527	9,662,733
Share of profits and losses of:				
Joint ventures	502,077	171,223	–	673,300
Associates	2,393	–	86,032	88,425
	8,042,779	1,366,120	1,015,559	10,424,458
Corporate and other unallocated income and expenses, net				(610,230)
Share of profits of joint ventures and associates				174,656
Finance costs				(2,432,792)
Profit before tax				7,556,092
Income tax expense				(1,713,503)
Profit for the year				5,842,589
Profit for the year attributable to shareholders of the Company:				
Operating segments	6,183,529	1,012,243	840,513	8,036,285
Corporate and other unallocated items				(3,110,567)
				4,925,718

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2019 *(Continued)*

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sale of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets:				
Operating segments	102,677,309	20,088,572	8,731,972	131,497,853
Corporate and other unallocated items				19,663,073
				151,160,926
Other segment information:				
Capital expenditure*				
– Operating segments	752,409	678,190	16,411	1,447,010
– Amount unallocated				77,251
				1,524,261
Depreciation				
– Operating segments	85,425	136,823	29,578	251,826
– Amount unallocated				67,882
				319,708
Amortisation of operating concessions	108,293	147,298	–	255,591
Amortisation of other intangible assets				
– Operating segments	1,515	3,164	1,643	6,322
– Amount unallocated				14,062
				20,384
Impairment of segment assets, net**				
– Operating segments	35,673	67,824	67,416	170,913
Provision for major overhauls	151,237	23,941	–	175,178



NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2018

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sale of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue <i>(note 6)</i>	19,949,993	2,341,876	2,304,988	24,596,857
Cost of sales	(13,634,943)	(1,263,631)	(922,343)	(15,820,917)
Gross profit	6,315,050	1,078,245	1,382,645	8,775,940
Segment results:				
The Group	6,320,676	1,026,077	876,838	8,223,591
Share of profits and losses of:				
Joint ventures	304,336	150,229	–	454,565
Associates	6,286	–	41,204	47,490
	6,631,298	1,176,306	918,042	8,725,646
Corporate and other unallocated income and expenses, net				(254,347)
Share of profits of associates				412,174
Finance costs				(2,104,563)
Profit before tax				6,778,910
Income tax expense				(1,548,890)
Profit for the year				5,230,020
Profit for the year attributable to shareholders of the Company:				
Operating segments	5,151,912	849,288	772,965	6,774,165
Corporate and other unallocated items				(2,302,900)
				4,471,265

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2018 *(Continued)*

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sale of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets:				
Operating segments	82,757,032	18,995,369	5,104,464	106,856,865
Corporate and other unallocated items				19,523,843
				126,380,708
Other segment information:				
Capital expenditure*				
– Operating segments	478,021	212,295	232,704	923,020
– Amount unallocated				73,477
				996,497
Depreciation				
– Operating segments	68,418	98,056	17,104	183,578
– Amount unallocated				62,830
				246,408
Amortisation of operating concessions	138,864	108,009	–	246,873
Amortisation of other intangible assets				
– Operating segments	5,138	710	2,375	8,223
– Amount unallocated				9,296
				17,519
Impairment/(reversal of impairment) of segment assets, net**				
– Operating segments	75,279	(21)	5,975	81,233
Provision for major overhauls	118,364	20,736	–	139,100

* Capital expenditure consists of additions to property, plant and equipment, operating concessions and other intangible assets, excluding assets from the acquisition of subsidiaries and associates.

** These amounts are recognised in the consolidated statement of profit or loss and included impairment against receivables under service concession arrangements, amounts due from contract customers, trade receivables and other receivables.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

	2019 HK\$'000	2018 HK\$'000
Revenue from external customers:		
Mainland China	26,758,529	23,113,441
Elsewhere	1,433,935	1,483,416
	28,192,464	24,596,857
Non-current assets:		
Mainland China	26,733,265	23,515,170
Portugal	520,102	667,867
Australia	609,830	638,052
Elsewhere	245,059	9,017
	28,108,256	24,830,106

The revenue information by geographical area is based on the locations of the customers; while the non-current asset information shown above is based on the locations of the assets and excludes financial instruments, amounts due from contract customers and deferred tax assets.

Information about major customers

During the year ended 31 December 2019, the Group had no transaction with any single external customer which contributed over 10% of the Group's total revenue for the year (2018: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

6. REVENUE, INTEREST INCOME, OTHER INCOME AND GAINS, NET

An analysis of the Group's revenue is as follows:

	2019 HK\$'000	2018 HK\$'000
Revenue from contracts with customers		
Sewage and reclaimed water treatment services	5,141,788	4,644,541
Construction services	17,877,469	15,305,452
Water distribution services	2,598,664	2,341,876
Technical and consultancy services and sale of machineries	2,574,543	2,304,988
	28,192,464	24,596,857

Imputed interest income under service concession arrangements amounting to HK\$2,356,736,000 (2018: HK\$2,339,257,000) is included in the above revenue.

Revenue from contracts with customers

(i) Disaggregated revenue information

As described in note 3.4 to the financial statements, revenue of sewage and reclaimed water treatment services, construction services and technical and consultancy services is recognised over time. Revenue of water distribution services and the sale of machineries is recognised at a point in time.

Please refer to note 5 to the financial statements and the table above for the disclosure of disaggregated revenue.

(ii) Performance obligation

The aggregate amount of the transaction prices allocated to the performance obligations that are unsatisfied (or partially unsatisfied) of BOT and Transfer-Operate-Transfer ("TOT") arrangements as at 31 December 2019 was HK\$207 billion (2018: HK\$162 billion). The performance obligations expected to be recognised in more than one year relate to the services of BOT and TOT arrangements. The amounts disclosed above do not include variable consideration which is constrained.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

6. REVENUE, INTEREST INCOME, OTHER INCOME AND GAINS, NET *(Continued)*

	2019 HK\$'000	2018 HK\$'000
Interest income		
Bank interest income	202,459	267,179
Interest income on trade and other receivables with extended credit periods	282,647	135,875
Interest income on loans to joint ventures [†]	21,090	19,129
Others*	189,466	–
	695,662	422,183
Other income		
Gross rental income	36,539	50,770
Government grants [§]	67,080	65,093
Sludge treatment income	147,642	138,735
Pipeline installation income	254,261	196,515
Dividend income from equity investments at fair value through other comprehensive income	25,123	19,836
VAT refunds for sewage and reclaimed water treatment and water distribution services [¶]	415,104	405,533
Others	248,924	189,579
	1,194,673	1,066,061
Gains, net		
Fair value gain on investment properties <i>(note 15)</i>	2,785	13,922
Gain on bargain purchase of subsidiaries <i>(note 47)</i>	78,275	115,463
Gain on disposal of joint ventures	–	2,736
Gain on disposal of subsidiaries, net <i>(note 48)</i>	33,126	–
Foreign exchange differences, net	–	17,231
Gain on disposal of a service concession arrangement	–	37,892
	114,186	187,244
Other income and gains, net	1,308,859	1,253,305

NOTES TO FINANCIAL STATEMENTS

31 December 2019

6. REVENUE, INTEREST INCOME, OTHER INCOME AND GAINS, NET *(Continued)*

- * *For the year ended 31 December 2019, the interest income recognised represented the interest income on loans to joint venture partners of the Group, which were unsecured, bore interest and were fully settled with interest income of HK\$189,466,000 recognised in profit or loss during the year ended 31 December 2019.*
- π *The interest income recognised mainly represented the interest income on (i) loans to joint ventures of the Group, as further detailed in notes 20 (e)(i), (ii) and (iii) to the financial statements, and (ii) a loan totalling RMB51,028,000 (equivalent to HK\$57,335,000) to a joint venture, which was unsecured, bore interest and was fully settled with interest income of HK\$5,674,000 recognised in profit or loss during the year ended 31 December 2019.*
- § *The government grants recognised during the year represented grants received from certain government authorities in respect of the fulfilment of certain specific duties by the Group.*
- ⊜ *The Group is entitled to a refund of 50% to 70% of the net VAT paid/payable under the “Catalogue of Products and Services related to Recycling Businesses Qualified for Value-Added Tax (VAT) Preferential Treatment” (Caishui [2015] No. 78) jointly issued by the PRC State Administration of Taxation and the Ministry of Finance.*



NOTES TO FINANCIAL STATEMENTS

31 December 2019

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2019 HK\$'000	2018 HK\$'000
Cost of sewage and reclaimed water treatment services rendered		2,294,098	2,078,728
Cost of construction services		13,009,772	11,417,351
Cost of water distribution services		1,205,015	1,155,622
Cost of technical and consultancy services rendered and machineries sold		1,261,185	922,343
Depreciation of property, plant and equipment [#]	14	269,253	244,767
Depreciation of right-of-use assets [#] (2018: amortisation of land lease payments)	16	50,455	1,641
Amortisation of operating concessions*	18	255,591	246,873
Amortisation of other intangible assets*	19	20,384	17,519
Minimum lease payments under operating leases		–	43,047
Lease payments not included in the measurement of lease liabilities	16	5,062	–
Auditor's remuneration		12,000	12,000
Employee benefit expense (including directors' remuneration (note 9)):			
Salaries, allowances and benefits in kind		2,213,834	1,811,356
Equity-settled share option expense	32(a)	–	4,688
Equity-settled share award expense	33(b)	27,244	–
Pension scheme contributions		248,608	169,843
Welfare and other expenses		447,000	387,132
		2,936,686	2,373,019
Impairment of receivables under service concession arrangements, net	18(b)	64,733	3,086
Impairment of amounts due from contract customers	26	16,490	79,155
Impairment of trade receivables, net	27(c)	19,124	31,218
Impairment/(reversal of impairment) of other receivables, net	28(c)	70,566	(32,226)
Provision for major overhauls	40	175,178	139,100
Foreign exchange difference, net		19,477	(17,231)
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		3,373	4,016
Loss on disposal of items of property, plant and equipment		894	1,145
Loss/(gain) on disposal of subsidiaries, net	48	(33,126)	67,159
Loss on deregistration of subsidiaries		–	15,541

* The amortisation of operating concessions and other intangible assets for the year is included in "Cost of sales" and "Administrative expenses" on the face of the consolidated statement of profit or loss, respectively.

The amortisation of land lease payments for the year ended 31 December 2018 was included in the depreciation of property, plant and equipment.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 HK\$'000	2018 HK\$'000
Interest on bank and other loans	1,601,244	1,302,132
Interest on corporate bonds	810,607	740,169
Interest on notes payable	218,984	175,461
Interest on finance leases	–	25,601
Interest on lease liabilities	25,170	–
Total interest expense	2,656,005	2,243,363
Increase in discounted amounts of provision for major overhauls arising from the passage of time (note 40)	21,016	17,054
Total finance costs	2,677,021	2,260,417
Less: Interest included in cost of construction services	(244,229)	(155,854)
	2,432,792	2,104,563

9. DIRECTORS' REMUNERATION

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

	Group 2019 HK\$'000	2018 HK\$'000
Fees	1,230	1,840
Other emoluments:		
Salaries, allowances and benefits in kind	19,250	19,649
Equity-settled share option expense	–	1,525
Equity-settled share award expense	8,933	–
Pension scheme contributions	297	36
	28,480	21,210
	29,710	23,050



NOTES TO FINANCIAL STATEMENTS

31 December 2019

9. DIRECTORS' REMUNERATION *(Continued)*

An analysis of the directors' remuneration, on a named basis, is as follows:

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Equity-settled share award expense <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
Year ended 31 December 2019					
Executive directors:					
Mr. Li Yongcheng (<i>Chairman</i>)	—	—	—	—	—
Mr. E Meng (<i>Vice Chairman</i>)	—	—	—	—	—
Mr. Jiang Xinhao	—	—	—	—	—
Mr. Zhou Min (<i>Chief Executive Officer</i>)	120	8,325	5,520	79	14,044
Mr. Li Haifeng	120	3,548	479	18	4,165
Mr. Zhang Tiefu	120	2,551	479	100	3,250
Ms. Qi Xiaohong	—	—	—	—	—
Mr. Ke Jian	—	—	—	—	—
Mr. Tung Woon Cheung Eric	120	—	256	—	376
Mr. Li Li	120	4,826	2,199	100	7,245
	600	19,250	8,933	297	29,080
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	—	—	—	120
Mr. Zhang Gaobo	150	—	—	—	150
Mr. Guo Rui	120	—	—	—	120
Mr. Wang Kaijun	120	—	—	—	120
Dr. Lee Man Chun Raymond	120	—	—	—	120
	630	—	—	—	630
Total	1,230	19,250	8,933	297	29,710

Note:

- Ms. Qi Xiaohong is deceased on 6 September 2019.
- Mr. Li Yongcheng, Mr. E Meng, Mr. Jiang Xinhao and Mr. Ke Jian waived to receive directors' remuneration for the year ended 31 December 2019 amounting to HK\$130,000, HK\$120,000, HK\$120,000 and HK\$120,000, respectively. Save as the above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

9. DIRECTORS' REMUNERATION *(Continued)*

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Equity-settled share option expense <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
Year ended 31 December 2018					
Executive directors:					
Mr. Li Yongcheng (<i>Chairman</i>)	130	–	–	–	130
Mr. E Meng (<i>Vice Chairman</i>)	120	–	–	–	120
Mr. Jiang Xinhao	120	–	–	–	120
Mr. Zhou Min (<i>Chief Executive Officer</i>)	120	8,256	720	18	9,114
Mr. Li Haifeng	120	3,743	373	18	4,254
Mr. Zhang Tiefu	120	2,715	–	–	2,835
Ms. Qi Xiaohong	120	–	–	–	120
Mr. Ke Jian	120	–	–	–	120
Mr. Tung Woon Cheung Eric	120	–	116	–	236
Mr. Li Li	120	4,935	212	–	5,267
	1,210	19,649	1,421	36	22,316
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	26	–	146
Mr. Zhang Gaobo	150	–	26	–	176
Mr. Guo Rui	120	–	26	–	146
Mr. Wang Kaijun	120	–	26	–	146
Dr. Lee Man Chun Raymond	120	–	–	–	120
	630	–	104	–	734
Total	1,840	19,649	1,525	36	23,050



NOTES TO FINANCIAL STATEMENTS

31 December 2019

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2018: three directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2018: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries, allowances and benefits in kind	7,333	6,582
Performance related bonuses	9,533	2,929
Pension scheme contributions	336	441
	17,202	9,952

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

	Number of employees	
	2019	2018
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$4,500,001 to HK\$5,000,000	1	–
HK\$5,500,001 to HK\$6,000,000	–	1
HK\$6,000,001 to HK\$6,500,000	2	–
	3	2

NOTES TO FINANCIAL STATEMENTS

31 December 2019

11. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the year ended 31 December 2019 as the Group did not generate any assessable profits arising in Hong Kong during the year (2018: Nil).

The income tax provisions in respect of operations in Mainland China and other countries are calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of Mainland China, a number of the Company's subsidiaries enjoy income tax exemptions and reductions because (1) these companies are engaged in the operations of sewage and reclaimed water treatment; and/or (2) they have operations in the Western regions of Mainland China that are qualified for a 15% concessionary corporate income tax rate for a prescribed period of time pursuant to the "Circular of the State Council on Policies and Measures Concerning the Large-scale Development of China's Western Regions" (Guo Fa [2000] No. 33) issued by the State Council of Mainland China.

	2019 HK\$'000	2018 HK\$'000
Current – Mainland China	836,219	814,691
Current – Elsewhere	47,202	24,789
Overprovision in prior years	(14,903)	(2,026)
Deferred (<i>note 42</i>)	844,985	711,436
Total tax expense for the year	1,713,503	1,548,890



NOTES TO FINANCIAL STATEMENTS

31 December 2019

11. INCOME TAX EXPENSE *(Continued)*

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

Year ended 31 December 2019

	Hong Kong and overseas		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(1,355,671)		8,911,763		7,556,092	
Tax expense/(credit) at the statutory tax rate	(208,915)	15.4	2,228,956	25.0	2,020,041	26.7
Lower tax rates of specific provinces or enacted by local authorities	–	–	(142,171)	(1.6)	(142,171)	(1.9)
Tax concession	–	–	(193,951)	(2.2)	(193,951)	(2.6)
Adjustments in respect of current tax of previous periods	–	–	(14,903)	(0.2)	(14,903)	(0.2)
Profits and losses attributable to joint ventures and associates	(90)	–	(234,880)	(2.6)	(234,970)	(3.0)
Income not subject to tax	(61,572)	4.5	(107,096)	(1.2)	(168,668)	(2.2)
Expenses not deductible for tax	299,970	(22.1)	125,956	1.5	425,926	5.6
Withholding tax of 5% on the distributable profit of the Group's PRC subsidiary and joint venture	–	–	12,239	0.1	12,239	0.2
Tax losses utilised from previous periods	–	–	(35,453)	(0.4)	(35,453)	(0.5)
Tax losses not recognised as deferred tax assets	29,321	(2.1)	16,092	0.2	45,413	0.6
Tax expense at the Group's effective tax rate	58,714	(4.3)	1,654,789	18.6	1,713,503	22.7

NOTES TO FINANCIAL STATEMENTS

31 December 2019

11. INCOME TAX EXPENSE *(Continued)*

Year ended 31 December 2018

	Hong Kong and overseas		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(976,489)		7,755,399		6,778,910	
Tax expense/(credit) at the statutory tax rate	(152,731)	15.6	1,938,851	25.0	1,786,120	26.3
Lower tax rates of specific provinces or enacted by local authorities	–	–	(62,149)	(0.8)	(62,149)	(0.9)
Tax concession	–	–	(168,528)	(2.2)	(168,528)	(2.5)
Adjustments in respect of current tax of previous periods	(2,026)	0.2	–	–	(2,026)	–
Profits and losses attributable to joint ventures and associates	(4,933)	0.5	(223,440)	(2.9)	(228,373)	(3.4)
Income not subject to tax	(170,434)	17.5	(139,895)	(1.8)	(310,329)	(4.6)
Expenses not deductible for tax	333,949	(34.2)	203,904	2.6	537,853	7.9
Withholding tax of 5% on the distributable profit of the Group's PRC subsidiary and joint venture	–	–	2,746	–	2,746	–
Tax losses utilised from previous periods	–	–	(64,143)	(0.8)	(64,143)	(0.9)
Tax losses not recognised as deferred tax assets	19,002	(1.9)	38,717	0.6	57,719	0.9
Tax expense at the Group's effective tax rate	22,827	(2.3)	1,526,063	19.7	1,548,890	22.8

The share of tax attributable to associates and joint ventures amounting to HK\$58,620,000 (2018: HK\$75,027,000) and HK\$149,545,000 (2018: HK\$134,868,000), respectively, is included in “share of profits and losses of joint ventures and associates” in the consolidated statement of profit or loss.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

12. CASH DISTRIBUTIONS

	2019 HK\$'000	2018 HK\$'000
Interim – HK10.7 cents (2018: HK9.5 cents) per ordinary share	1,071,926	894,196
Proposed final – HK7.8 cents (2018: HK8.3 cents) per ordinary share	781,653	830,945
	1,853,579	1,725,141

The proposed final cash distribution out of the contributed surplus account for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year ended 31 December 2019 is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of 9,918,477,685 (2018: 9,331,756,305) ordinary shares in issue less the weighted average number of 22,170,910 (2018: Nil) ordinary shares held under the share award scheme of the Company during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to shareholders of the Company, adjusted to reflect a dilutive effect of share options of an associate. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue less the weighted average number of shares held under the share award scheme during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(Continued)

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

	2019 HK\$'000	2018 HK\$'000
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	4,925,718	4,471,265
Effect of dilution on earnings in respect of share options of an associate	(3,434)	(9,039)
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	4,922,284	4,462,226
	2019	2018
Number of ordinary shares		
Weighted average number of ordinary shares in issue less the weighted average number of shares held under the share award scheme during the year, used in the basic earnings per share calculation	9,896,306,775	9,331,756,305
Effect of dilution on weighted average number of ordinary shares		
– Share options which have dilutive effect	125,992,545	135,340,424
– Share awards which have dilutive effect	15,876,980	–
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	10,038,176,300	9,467,096,729



NOTES TO FINANCIAL STATEMENTS

31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, and sewage and water pipelines <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2019							
At 1 January 2019 (restated):							
Cost	2,240,579	158,346	1,144,367	222,546	241,563	524,771	4,532,172
Accumulated depreciation	(309,650)	(72,674)	(190,371)	(131,713)	(98,331)	–	(802,739)
Net carrying amount	1,930,929	85,672	953,996	90,833	143,232	524,771	3,729,433
As at 31 December 2018, net of accumulated depreciation	1,930,929	85,672	1,447,361	90,833	143,232	524,771	4,222,798
Effect of adoption of HKFRS 16	–	–	(493,365)	–	–	–	(493,365)
At 1 January 2019 (restated)	1,930,929	85,672	953,996	90,833	143,232	524,771	3,729,433
Net carrying amount:							
At 1 January 2019 (restated)	1,930,929	85,672	953,996	90,833	143,232	524,771	3,729,433
Acquisition of subsidiaries (<i>note 47</i>)	–	–	217,326	6,438	1,995	21,105	246,864
Additions	194,688	8,750	46,874	127,464	87,146	18,578	483,500
Transfer from investment properties (<i>note 15</i>)	234,540	–	–	–	–	–	234,540
Depreciation provided during the year	(108,830)	(15,795)	(82,282)	(30,901)	(31,445)	–	(269,253)
Disposal of subsidiaries (<i>note 48</i>)	–	–	(108)	(197)	(254)	–	(559)
Disposals	–	–	(62,885)	(10,427)	(1,620)	–	(74,932)
Transfers and reclassifications	4,886	–	650	43	–	(5,579)	–
Exchange realignment	(37,005)	(1,224)	(62,169)	(2,236)	(18,265)	(62,621)	(183,520)
At 31 December 2019	2,219,208	77,403	1,011,402	181,017	180,789	496,254	4,166,073
At 31 December 2019:							
Cost	2,656,535	138,485	1,290,219	338,169	332,127	496,254	5,251,789
Accumulated depreciation	(437,327)	(61,082)	(278,817)	(157,152)	(151,338)	–	(1,085,716)
Net carrying amount	2,219,208	77,403	1,011,402	181,017	180,789	496,254	4,166,073

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, and sewage and water pipelines <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2018							
At 1 January 2018:							
Cost	2,212,075	149,362	1,440,157	183,847	175,390	277,818	4,438,649
Accumulated depreciation	(223,794)	(46,427)	(130,357)	(102,952)	(93,253)	–	(596,783)
Net carrying amount	1,988,281	102,935	1,309,800	80,895	82,137	277,818	3,841,866
Net carrying amount:							
At 1 January 2018	1,988,281	102,935	1,309,800	80,895	82,137	277,818	3,841,866
Acquisition of subsidiaries <i>(note 47)</i>	105,997	–	110,147	14,246	17,447	64,680	312,517
Additions	10,452	21,573	157,065	41,929	122,642	188,874	542,535
Depreciation provided during the year	(92,498)	(30,064)	(67,881)	(37,732)	(18,233)	–	(246,408)
Disposal of subsidiaries <i>(note 48)</i>	–	–	(993)	(3,293)	(49,212)	–	(53,498)
Disposals	–	–	(1,738)	(303)	(5,528)	–	(7,569)
Transfers and reclassifications	–	–	1,588	–	744	(2,332)	–
Exchange realignment	(81,303)	(8,772)	(60,627)	(4,909)	(6,765)	(4,269)	(166,645)
At 31 December 2018	1,930,929	85,672	1,447,361	90,833	143,232	524,771	4,222,798
At 31 December 2018:							
Cost	2,240,579	158,346	1,637,732	222,546	241,563	524,771	5,025,537
Accumulated depreciation	(309,650)	(72,674)	(190,371)	(131,713)	(98,331)	–	(802,739)
Net carrying amount	1,930,929	85,672	1,447,361	90,833	143,232	524,771	4,222,798



NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

The net carrying amount of the Group's fixed assets held under finance leases included in the total amount of machinery as at 31 December 2018 was HK\$417,540,000 (*note 39*).

At 31 December 2019, certain land use rights and certain buildings situated in Mainland China with an aggregate carrying amount of HK\$1,111,693,000 (2018: HK\$950,897,000) were pledged to secure certain bank loans granted to the Group (*note 36*).

15. INVESTMENT PROPERTIES

	2019 HK\$'000	2018 HK\$'000
Carrying amount at 1 January	1,052,492	1,083,677
Transfer to property, plant and equipment (<i>note 14</i>)	(234,540)	–
Fair value gain on revaluation	2,785	13,922
Exchange realignment	(13,952)	(45,107)
Carrying amount at 31 December	806,785	1,052,492

Notes:

- (a) The Group's investment properties consist of a portion of an office building and a commercial building situated in Mainland China and are held under long term leases.
- (b) The investment properties are leased to third parties, a joint venture and associates under operating lease arrangements, further summary of which are included in note 16 to the financial statements.
- (c) In 2019, certain floors of the Group's office building that were previously leased out were changed to owner-occupied and the related floors were transferred from investment properties to property, plant and equipment accordingly.
- (d) As at 31 December 2019, one of the Group's investment properties with a carrying amount of HK\$545,360,000 (2018: HK\$787,446,000) was pledged to a bank to secure a bank loan granted to the Group (*note 36*).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

15. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

- (e) The Group's investment properties were revalued on 31 December 2019 and 2018 by Beijing North Asia Asset Assessment Firm, independent professionally qualified valuers, at HK\$806,785,000 (2018: HK\$1,052,492,000). Each year, management decides to appoint which external valuers to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Each year, management has discussions with the valuers on the valuation assumptions and valuation results.

The fair value of the Group's investment properties was measured using significant unobservable inputs (Level 3 of fair value hierarchy). During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

Fair value hierarchy disclosure

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Office and commercial buildings HK\$'000
Carrying amount at 1 January 2018	1,083,677
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	13,922
Exchange realignment	(45,107)
Carrying amount at 31 December 2018 and 1 January 2019	1,052,492
Transfer to property, plant and equipment	(234,540)
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	2,785
Exchange realignment	(13,952)
Carrying amount at 31 December 2019	806,785

Set out below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

Valuation technique	Significant unobservable inputs	31 December 2019	Range 31 December 2018
Income capitalisation method	Daily estimated rental value (per sq. m.)	RMB4.62 to RMB10.53	RMB4.33 to RMB9.10
	Rent growth	2%	2%
	Discount rate	from 2021 6%	from 2020 6%
Direct comparison method	Market unit sale rate (per sq. m.)	RMB56,144 to RMB108,620	RMB55,589 to RMB110,984

Under the income capitalisation method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flows in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

15. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

(e) *(Continued)*

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of the property. The periodic cash flow is estimated as gross income less operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase/(decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the discount rate in isolation would result in a significant (decrease)/increase in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and an opposite change in the discount rate.

Under the direct comparison method, fair value is estimated using the comparison method by making references to comparable market transactions and adjusted for differences on location and physical attributes, such as the saleable area of the building. The fair value measurement is positively correlated to the market unit sale rate.

16. LEASES

The Group as a lessee

The Group has lease contracts for office buildings and various items of machinery, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 20-34 years, and no ongoing payments will be made under the terms of these land leases.

Lease terms of different assets generally are as follows:

Office buildings	Over the lease terms or 2 – 16 years, whichever is shorter
Office equipment	Over the lease terms or 5 – 10 years, whichever is shorter
Machinery, sewage and water pipelines	Over the lease terms or 4 – 10 years, whichever is shorter
Motor vehicles	Over the lease terms or 2 – 4 years, whichever is shorter

Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. No long-term lease contracts have extension and termination options.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

16. LEASES *(Continued)*

The Group as a lessee *(Continued)*

(a) Prepaid land lease payments (before 1 January 2019)

	<i>HK\$'000</i>
Carrying amount at 1 January 2018	62,618
Recognised in profit or loss during the year	(1,641)
Exchange realignment	(2,472)
Carrying amount at 31 December 2018	58,505

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	<i>Office buildings HK\$'000</i>	<i>Office equipment HK\$'000</i>	<i>Prepaid land lease payments HK\$'000</i>	<i>Motor vehicles HK\$'000</i>	<i>Machinery, sewage and water pipelines HK\$'000</i>	<i>Total HK\$'000</i>
At 1 January 2019	94,015	403	58,505	8,249	493,365	654,537
Additions	753	–	91,655	692	54,434	147,534
Arising from acquisition (note 47)	–	–	13,729	–	–	13,729
Depreciation charge	(15,036)	(87)	(1,641)	(2,727)	(30,964)	(50,455)
Exchange realignment	(1,831)	(4)	(2,087)	(122)	(7,015)	(11,059)
As at 31 December 2019	77,901	312	160,161	6,092	509,820	754,286



NOTES TO FINANCIAL STATEMENTS

31 December 2019

16. LEASES *(Continued)*

The Group as a lessee *(Continued)*

(c) *Lease liabilities*

The carrying amount of lease liabilities (2018: finance lease payables) and the movements during the year are as follows:

	2019 Lease liabilities HK\$'000	2018 Finance lease payables HK\$'000
Carrying amount at 1 January	562,304	498,210
New leases	58,409	16,190
Accretion of interest recognised during the year	25,170	–
Payments	(113,526)	(96,078)
Exchange realignment	(9,014)	(17,190)
Carrying amount at 31 December	523,343	401,132
Analysed into:		
Current portion	128,908	89,714
Non-current portion	394,435	311,418

The maturity analysis of lease liabilities (2018: finance lease payables) is disclosed in note 56 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

16. LEASES *(Continued)*

The Group as a lessee *(Continued)*

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

	2019 HK\$'000
Interest on lease liabilities	25,170
Depreciation charge of right-of-use assets	50,455
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in administrative expenses)	5,062
Total amount recognised in profit or loss	80,687

(e) The total cash outflow for leases is disclosed in the consolidated statement of cash flows.

The Group as a lessor

The Group leases its investment properties (*note 15*) consisting of certain floors and portion of its office building and a commercial building in the PRC under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was HK\$36,539,000 (2018: HK\$50,770,000), details of which are included in note 6 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 HK\$'000	2018 HK\$'000
Within one year	12,616	16,518
In the second to fifth years, inclusive	13,666	2,472
Beyond five years	–	1,158
	26,282	20,148



NOTES TO FINANCIAL STATEMENTS

31 December 2019

17. GOODWILL

	2019 HK\$'000	2018 HK\$'000
Cost and net carrying amount:		
At 1 January	3,803,072	3,303,632
Acquisition of subsidiaries (<i>note 47</i>)	310,896	645,379
Disposal of subsidiaries (<i>note 48</i>)	(7,665)	(64,625)
Exchange realignment	(73,605)	(81,314)
At 31 December 2019	4,032,698	3,803,072

Impairment testing of goodwill

The carrying amount of the goodwill acquired through acquisitions of subsidiaries and non-controlling interests is allocated to the relevant business units of the individual operating segments of the Group for impairment testing, which is summarised as follows:

	2019 HK\$'000	2018 HK\$'000
Sewage and reclaimed water treatment and construction services segment	1,953,666	1,864,025
Water distribution services segment	969,968	982,577
Technical and consultancy services and sale of machineries segment	1,109,064	956,470
	4,032,698	3,803,072

NOTES TO FINANCIAL STATEMENTS

31 December 2019

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

The recoverable amounts of the relevant business units in each of the above operating segments have been determined by reference to business valuations performed by Valtech Valuation Advisory Limited (2018: Valtech Valuation Advisory Limited), independent professionally qualified valuers, using cash flow projections which are based on financial forecasts approved by senior management covering a period of 10 years and based on the assumption that the sizes of the operations remains constant perpetually. The discount rates applied to the cash flow projections ranged from 10.82% to 12.00% (2018: 11.04% to 12.50%) for the business units of the sewage and reclaimed water treatment and construction services segment, the water distribution services segment, and the technical and consultancy services and sale of machineries segment, which are determined by reference to the average rates for similar industries and the business risks of the relevant business units. A growth rate of 3% (2018: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors of the Company, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2019 (2018: Nil).

Key assumptions used in estimations of the recoverable amounts

The following describes each key assumption adopted by management in the preparation of the cash flow projections for the purpose of impairment testing of goodwill:

- **Budgeted revenue**
 - in respect of the revenue from the sewage and reclaimed water treatment and construction services segment and the water distribution services segment, the budgeted revenue is based on the projected sewage and reclaimed water treatment and water distribution volume, and the latest sewage and reclaimed water treatment and water tariff charges up to the date of valuation.
 - in respect of the revenue from the technical and consultancy services and sale of machineries segment, the budgeted revenue is based on the expected growth rate of the market.
- **Budgeted gross margins**
 - the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved during the six months ended 30 June for the same year, increased for expected efficiency improvements.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in estimations of the recoverable amounts (Continued)

- **Discount rates**
 - The discount rates used are after tax and reflect specific risks of the respective segments.
 - The pre-tax discount rates applied in the cash flow projections ranged from 12.73% to 15.49% (2018: 12.65% to 15.83%) for the business units of the sewage and reclaimed water treatment and construction services segment, the water distribution services segment, and the technical and consultancy services and sale of machineries segment.
- **Business environment**
 - There have been no major changes in the existing political, legal and economic conditions in Mainland China, Singapore, Portugal, Malaysia, Australia and New Zealand.

18. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in Mainland China, Singapore, Portugal and Australia on a BOT or a TOT basis in respect of its sewage and reclaimed water treatment, water distribution and seawater desalination services. These service concession arrangements generally involve the Group as an operator in (i) constructing sewage and reclaimed water treatment plants, water distribution facilities and a seawater desalination plant (collectively, the “Facilities”) for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 12 to 50 years (the “Service Concession Periods”), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authorities as grantors will control and regulate the scope of services that the Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the terms of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in Mainland China, Singapore, Portugal or Australia that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations imposed on the Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods, and arrangements for arbitrating disputes.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

At 31 December 2019, the Group had 773, 20, 116 and 1 service concession arrangements on sewage treatment, reclaimed water treatment, water distribution and seawater desalination, respectively, with various governmental authorities in Mainland China, Singapore, Portugal and Australia and a summary of the major terms of the principal service concession arrangements is as follows:

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries:							
1.	綿陽中科成污水淨化有限公司	綿陽市塔子壩 污水處理廠一期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	TOT on sewage treatment	100,000	30 years from 2002 to 2032
2.	廣州中業污水處理有限公司	廣州市花都區新華 污水處理廠一期	Guangzhou, Guangdong Province, the PRC	廣州市花都區 市政園林管理局	BOT on sewage treatment	100,000	25 years from 2008 to 2033
3.	深圳北控創新投資有限公司	深圳市龍崗區橫嶺 污水處理廠二期	Shenzhen, Guangdong Province, the PRC	深圳市水務局	TOT on sewage treatment	400,000	20 years from 2011 to 2031
4.	深圳北控豐泰投資有限公司	深圳市龍崗區橫嶺 污水處理廠一期	Shenzhen, Guangdong Province, the PRC	深圳市龍崗區 人民政府	BOT on sewage treatment	200,000	25 years from 2003 to 2028
5.	成都青白江中科成 污水淨化有限公司	成都市青白江區 污水處理廠	Chengdu, Sichuan Province, the PRC	成都市青白江區 人民政府	TOT on sewage treatment	100,000	25 years from 2009 to 2034
6.	錦州市北控水務 有限公司	錦州市一期 污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與 房產局	TOT on sewage treatment	100,000	30 years from 2009 to 2039
7.	錦州市北控水務 有限公司	錦州市二期 污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與 房產局	BOT on sewage treatment	100,000	30 years from 2011 to 2041
8.	錦州市小凌河北控 水務有限公司	錦州市三期 污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市人民政府	TOT on sewage treatment	100,000	30 years from 2015 to 2045
9.	玉溪北控城投水質淨化 有限公司	玉溪市污水處理廠	Yuxi, Yunnan Province, the PRC	玉溪市住房和城鄉 建設局	TOT on sewage treatment	100,000	30 years from 2010 to 2040
10.	廣西貴港北控水務 有限公司	貴港市城西 污水處理廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on sewage treatment	100,000	30 years from 2008 to 2038
11.	廣西貴港北控水務 有限公司	南江水廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on water distribution	100,000	30 years from 2008 to 2038



NOTES TO FINANCIAL STATEMENTS

31 December 2019

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
12.	遵義北控水務有限公司	遵義市青山供水廠	Zunyi, Guizhou Province, the PRC	遵義市供排水有限責任公司	BOT on water distribution	100,000	25 years from 2010 to 2035
13.	衡陽市海朗水務有限公司	衡陽市珠暉自來水制水廠	Hengyang, Hunan Province, the PRC	衡陽市建設局	BOT on water distribution	200,000	30 years (Not yet started)
14.	廣安北控廣和水務有限公司	廣安新橋園區供水廠(一期)	Guangan, Sichuan Province, the PRC	廣安市人民政府	BOT on water distribution	100,000	30 years from 2015 to 2045
15.	廣安北控廣和水務有限公司	廣安新橋園區供水廠(二期)	Guangan, Sichuan Province, the PRC	廣安市人民政府	BOT on water distribution	100,000	30 years (Not yet started)
16.	昆明空港北控城排水質淨化有限公司	昆明空港經濟區污水處理廠(二期)	Kunming, Yunnan Province, the PRC	昆明市人民政府	BOT on sewage treatment	130,000	20 years (Not yet started)
17.	成都北控蜀都投資有限公司	成都合作污水處理廠	Chengdu, Sichuan Province, the PRC	成都市郫縣水務局	TOT on sewage treatment	100,000	25 years from 2012 to 2037
18.	東莞市德高水務有限公司	東莞市橫瀝東坑合建污水處理廠	Dongguan, Guangdong Province, the PRC	高埗鎮人民政府	BOT on sewage treatment	120,000	25 years from 2008 to 2033
19.	北控水務集團(海南)有限公司	白沙門污水處理廠	Haikou, Hainan Province, the PRC	海口市水務局	BOT on sewage treatment	200,000	25 years from 2010 to 2035
20.	德清達闊制水有限公司	德清縣乾元淨水廠項目	Deqing, Zhejiang Province, the PRC	德清縣建設局	BOT on water distribution	100,000	25 years from 2007 to 2032
21.	北控(鞍山)水務有限公司	鞍山市永寧污水處理廠項目	Anshan, Liaoning Province, the PRC	鞍山市環境保護局	BOT on sewage treatment	100,000	30 years from 2015 to 2045
22.	阜新市北控水務有限公司	遼寧省阜新市開發區污水處理廠項目	Fuxin, Liaoning Province, the PRC	阜新市人民政府	TOT on sewage treatment	100,000	30 years from 2015 to 2045
23.	北控(洛陽)水務發展有限公司	澗西污水處理廠項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045

NOTES TO FINANCIAL STATEMENTS

31 December 2019

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
24.	北控(洛陽)水務發展 有限公司	瀘東污水處理廠 項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045
25.	北控(洛陽)水務發展 有限公司	新區污水處理廠 項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	100,000	30 years from 2015 to 2045
26.	廣東鶴山北控水務 有限公司	鶴山市沙坪鎮 第二供水廠項目	Jiangmen, Guangdong Province, the PRC	鶴山市人民政府	BOT on water distribution	195,000	30 years from 2015 to 2045
27.	北控(濟源)污水淨化 有限公司	濟源市城市污水廠	Jiyuan, Henan Province, the PRC	濟源市住房和 城鄉建設局	TOT on sewage treatment	100,000	30 years from 2016 to 2046
28.	永州市水務運營 有限責任公司	永州曲河供水廠 一期	Yongzhou, Hunan Province, the PRC	永州市城市管 理行政執法局	TOT on water distribution	100,000	30 years from 2016 to 2046
29.	凱里北控清源水務 有限公司	凱里市城鎮供排水 項目	Kaili, Guizhou Province, the PRC	凱里水務局	TOT on water distribution	144,000	30 years from 2016 to 2046
30.	棗莊北控智信水務 有限公司	棗莊市區供水廠	Zaozhuang City, Shandong Province, the PRC	棗莊市人民政府	BOT on water distribution	110,000	30 years from 2013 to 2043
31.	南安實康水務 有限公司	福建南安供水廠 一期	Nanan, Fujian Province, the PRC	福建南安市 人民政府	TOT on water distribution	170,000	30 years from 2013 to 2043
32.	山東昌樂實康水業 有限公司	山東昌樂供水廠	Changle, Shandong Province, the PRC	山東省昌樂 人民政府	TOT on water distribution	100,000	30 years from 2013 to 2043
33.	昌樂實康原水 有限公司	山東昌樂原水廠	Changle, Shandong Province, the PRC	山東省昌樂 人民政府	BOT on water distribution	100,000	30 years from 2013 to 2043



NOTES TO FINANCIAL STATEMENTS

31 December 2019

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
34.	南京城東北控污水處理有限公司	南京市城東污水處理廠一期	Nanjing, Jiangsu Province, the PRC	南京市城鄉建設委員會	TOT on sewage treatment	100,000	30 years from 2015 to 2045
35.	南京城東北控污水處理有限公司	南京市城東污水處理廠二期	Nanjing, Jiangsu Province, the PRC	南京市城鄉建設委員會	TOT on sewage treatment	100,000	30 years from 2015 to 2045
36.	常德北控碧海水務有限責任公司	常德柳葉湖污水廠	Changde City, Hunan Province, the PRC	常德市市政	TOT on sewage treatment	100,000	15 years from 2016 to 2031
37.	BEWGI-UE NEWater (S) Pte. Ltd.	新加坡樟宜第二新生水廠	Singapore	新加坡公用事業局	DBO on water recycling	228,000	25 years from 2014 to 2039
38.	延吉京城環保產業有限公司	延吉污水處理廠一期	Yanji City, Jilin Province, the PRC	延吉市人民政府	TOT on sewage treatment	100,000	30 years from 2014 to 2044
39.	永州市北控污水淨化有限公司	永州市冷水灘區下河綫污水處理廠	Yongzhou, Hunan Province, the PRC	湖南省永州市公用事業管理局	BOT on sewage treatment	100,000	30 years from 2008 to 2038
40.	厚街海清污水處理有限公司	厚街沙塘污水處理廠	Dongguan, Guangdong Province, the PRC	厚街鎮人民政府	BOT on sewage treatment	100,000	25 years from 2009 to 2033
41.	北控(洛陽)水務發展有限公司	新區污水處理廠二期	Louyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	100,000	30 years from 2015 to 2045
42.	內蒙古泰弘生態環境發展發展股份有限公司	包頭市大青山生態應急水源工程	Baotou, Inner Mongolia, the PRC	包頭市人民政府	BOT on water supply	190,000	30 years from 2012 to 2042
43.	Macarthur Water Pty Ltd.	Macarthur	Sydney, Australia	Sydney Water	BOT on water supply	265,000	35 years from 1995 to 2030
44.	北控(洛陽)水務發展有限公司	澗西污水處理廠二期擴建工程	Luoyang, Henan Province, the PRC	洛陽市水務局	BOT on sewage treatment	100,000	30 years from 2015 to 2045

NOTES TO FINANCIAL STATEMENTS

31 December 2019

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
45.	永州水務向家亭水質淨化有限公司	向家亭污水處理廠提標改造工程	Yongzhou, Hunan Province, the PRC	永州市城市管理行政執法局	BOT on sewage treatment	100,000	30 years from 2016 to 2046
46.	湖南北控水務發展有限公司	長沙市敢勝垵污水處理廠及配套工程一期	Changsha, Hunan Province, the PRC	長沙市住房和城鄉建設委員會	TOT on sewage treatment	100,000	26 years from 2019 to 2045
47.	台州市黃岩北控污水處理有限公司	黃岩江口污水處理廠改擴建項目	Taizhou, Zhejiang Province, the PRC	台州市黃岩區住房和城鄉建設局	BOT on sewage treatment	120,000	21 years from 2018 to 2039
Joint ventures:							
48.	貴陽北控水務有限責任公司 ("Guiyang BEWG")	貴陽市城市供水廠	Guiyang, Guizhou Province, the PRC	貴陽市城市管理局	BOT on water distribution	1,000,000	30 years from 2011 to 2041
49.	海寧實康水務有限公司	浙江海寧供水廠	Haining, Zhejiang Province, the PRC	浙江海寧市人民政府	TOT on water distribution	300,000	30 years from 2013 to 2043
50.	朝陽市北控水務有限公司	朝陽淨源污水處理廠	Chaoyang City, Liaoning Province, the PRC	朝陽市人民政府國有資產監督管理委員會	TOT on sewage treatment	100,000	30 years from 2016 to 2046

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Pursuant to the service concession agreements entered into by the Group, the Group is granted the rights to use the property, plant and equipment of the facilities and the related land, which are generally registered under the names of the relevant companies in the Group, during the service concession periods, but the Group is generally required to surrender these assets to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods. As at 31 December 2019, the Group was in the process of applying for the change of registration of the title certificates with respect to certain land use rights and buildings of certain Facilities to which the Group's service concession arrangements relate. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of these buildings and land to which the above-mentioned land use rights relate, and that the Group would not have any legal barriers in obtaining the proper title certificates.

At 31 December 2019, certain sewage treatment and water distribution concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) with an aggregate carrying amount of HK\$14,547,127,000 (2018: HK\$10,878,619,000) were pledged to secure certain bank loans granted to the Group (*note 36*).

As further explained in the accounting policy for "Service concession arrangements" set out in note 3.4 to the financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate. The following is the summarised information of the intangible asset component (operating concessions) and the financial asset component (receivables under service concession arrangements) with respect to the Group's service concession arrangements:

NOTES TO FINANCIAL STATEMENTS

31 December 2019

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Operating concessions

	2019 HK\$'000	2018 HK\$'000
At 1 January:		
Cost	4,981,435	5,064,027
Accumulated amortisation	(1,067,073)	(873,256)
Net carrying amount	3,914,362	4,190,771
Net carrying amount:		
At 1 January	3,914,362	4,190,771
Acquisition of subsidiaries (<i>note 47</i>)	438,010	135,441
Additions	915,182	387,975
Amortisation provided during the year	(255,591)	(246,873)
Disposal of subsidiaries (<i>note 48</i>)	(206)	(354,978)
Exchange realignment	(149,400)	(197,974)
At 31 December	4,862,357	3,914,362
At 31 December:		
Cost	6,241,427	4,981,435
Accumulated amortisation	(1,379,070)	(1,067,073)
Net carrying amount	4,862,357	3,914,362



NOTES TO FINANCIAL STATEMENTS

31 December 2019

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2019 HK\$'000	2018 HK\$'000
Receivables under service concession arrangements	36,056,475	31,008,697
Impairment <i>(note (b))</i>	(207,774)	(143,683)
Portion classified as current assets	35,848,701 (3,815,388)	30,865,014 (3,252,496)
Non-current portion	32,033,313	27,612,518

Notes:

- (a) In respect of the Group's receivables under service concession arrangements, the various group companies have different credit policies, depending on the requirements of the locations in which they operate. Ageing analyses of receivables under service concession arrangements are regularly reviewed by senior management in order to minimise any credit risk arising from the receivables.

An ageing analysis of the Group's receivables under service concession arrangements as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 HK\$'000	2018 HK\$'000
Billed:		
Within 3 months	1,651,915	1,328,652
4 to 6 months	785,944	601,011
7 to 12 months	579,737	340,745
Over 1 year	797,792	765,192
	3,815,388	3,035,600
Unbilled:		
Current portion	—	216,896
Non-current portion	32,033,313	27,612,518
	32,033,313	27,829,414
Total	35,848,701	30,865,014

NOTES TO FINANCIAL STATEMENTS

31 December 2019

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: *(Continued)*

- (b) The movements in the loss allowance for impairment of the Group's receivables under service concession arrangements during the year are as follows:

	2019 HK\$'000	2018 HK\$'000
At 1 January	143,683	165,237
Impairment losses, net	64,733	3,086
Exchange realignment	(642)	(24,640)
At 31 December	207,774	143,683

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2019, the probability of default applied ranged from 0.08% to 2.00% (2018: 0.06% to 2.22%), and the loss given default was estimated to range from 55.83% to 69.64% (2018: 55.83% to 69.64%).

The increase (2018: increase) in the loss allowance was due to the significant changes in the gross carrying amount of the receivables under service concession arrangements mainly attributable to the acquisition of new subsidiaries and new completed BOT projects.

Set out below is the information about the credit risk exposure of the Group's receivables under service concession arrangements using the probability of default approach:

As at 31 December 2019

	Stage 1 Collective HK\$'000	Stage 2 Collective HK\$'000	Stage 3 Collective HK\$'000	Purchased or originated credit-impaired ("POCI") HK\$'000	Total HK\$'000
ECL allowance as at 1 January 2019	47,938	90,695	5,050	–	143,683
New assets originated	6,635	–	–	–	6,635
Repaid (excluding write-offs)	(34,769)	–	–	–	(34,769)
Transfers to Stage 2	(34,151)	39,201	(5,050)	–	–
Transfers to Stage 1	27,883	(27,883)	–	–	–
Impact on year end ECLs of exposures transferred between stages during the year, net	–	92,867	–	–	92,867
Exchange realignment	(77)	(565)	–	–	(642)
At 31 December 2019	13,459	194,315	–	–	207,774



NOTES TO FINANCIAL STATEMENTS

31 December 2019

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: *(Continued)*

(b) *(Continued)*

As at 31 December 2018

	Stage 1 Collective HK\$'000	Stage 2 Collective HK\$'000	Stage 3 Collective HK\$'000	Purchased or originated credit-impaired ("POCI") HK\$'000	Total HK\$'000
ECL allowance as at 1 January 2018	70,818	89,490	4,929	–	165,237
New assets originated	3,086	–	–	–	3,086
Repaid (excluding write-offs)	(2,393)	–	–	–	(2,393)
Transfers to Stage 2	(2,918)	2,918	–	–	–
Transfers to Stage 3	(166)	–	166	–	–
Impact on year end ECLs of exposures transferred between stages during the year, net	–	1,965	428	–	2,393
Exchange realignment	(20,489)	(3,678)	(473)	–	(24,640)
At 31 December 2018	47,938	90,695	5,050	–	143,683

- (c) Included in the receivables under service concession arrangements of the Group as at 31 December 2018 was an amount due from Beijing Enterprises Holdings Limited ("BEHL"), a substantial beneficial shareholder of the Company, of HK\$214,814,000. In February 2013, the Group acquired from BEHL the estimated future net cash income (after deducting all state and local taxes in Mainland China and operating costs) generated from the service concession arrangement on the water purification and treatment operation of Phase 1 of No. 9 water treatment plant in Beijing for the six years ended 31 December 2018. Imputed interest income of HK\$2,072,000 (2018: HK\$25,502,000), which was measured at amortised cost using the effective interest rate method, was recognised in "Revenue" on the face of the consolidated statement of profit or loss during the year. Further details of the transaction are set out in the Company's circular and announcement dated 30 November 2012 and 5 February 2013, respectively. The balance was fully settled in 2019.
- (d) There was no receivable under service concession arrangements under finance leases as at 31 December 2019. The carrying amount of the Group's receivables under service concession arrangements under finance leases as at 31 December 2018 was HK\$113,629,000 (*note 39*).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

19. OTHER INTANGIBLE ASSETS

	Patents HK\$'000	Computer software HK\$'000	Total HK\$'000
Year ended 31 December 2019			
At 1 January 2019:			
Cost	5,461	187,528	192,989
Accumulated amortisation	(1,474)	(45,735)	(47,209)
Net carrying amount	3,987	141,793	145,780
Net carrying amount:			
At 1 January 2019	3,987	141,793	145,780
Additions	1,286	124,293	125,579
Amortisation provided during the year	(693)	(19,691)	(20,384)
Exchange realignment	(78)	(3,384)	(3,462)
At 31 December 2019	4,502	243,011	247,513
At 31 December 2019:			
Cost	6,642	307,575	314,217
Accumulated amortisation	(2,140)	(64,564)	(66,704)
Net carrying amount	4,502	243,011	247,513



NOTES TO FINANCIAL STATEMENTS

31 December 2019

19. OTHER INTANGIBLE ASSETS *(Continued)*

	Patents HK\$'000	Computer software HK\$'000	Total HK\$'000
Year ended 31 December 2018			
At 1 January 2018:			
Cost	5,578	128,142	133,720
Accumulated amortisation	(978)	(30,843)	(31,821)
Net carrying amount	4,600	97,299	101,899
Net carrying amount:			
At 1 January 2018	4,600	97,299	101,899
Acquisition of subsidiaries <i>(note 47)</i>	–	1,658	1,658
Additions	117	65,870	65,987
Amortisation provided during the year	(551)	(16,968)	(17,519)
Exchange realignment	(179)	(6,066)	(6,245)
At 31 December 2018	3,987	141,793	145,780
At 31 December 2018:			
Cost	5,461	187,528	192,989
Accumulated amortisation	(1,474)	(45,735)	(47,209)
Net carrying amount	3,987	141,793	145,780

NOTES TO FINANCIAL STATEMENTS

31 December 2019

20. INVESTMENTS IN JOINT VENTURES

	Notes	2019 HK\$'000	2018 HK\$'000
Investments in joint ventures, included in non-current assets:			
Share of net assets		7,502,807	6,804,652
Goodwill on acquisition	(d)	473,435	478,275
		7,976,242	7,282,927
Due from joint ventures, included in current assets	(e), 28	192,069	2,293,324
Due to joint ventures, included in current liabilities	(e), 44	(1,610,261)	(1,318,709)
Total interests in joint ventures		6,558,050	8,257,542

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

Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Percentage of			
			Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activities
Guiyang BEWG*	PRC/Mainland China	RMB1,456,162,145/ RMB1,456,162,145	45	45	45	Water distribution
洛陽北控水務集團有限公司 ("Luoyang BEWG")*	PRC/Mainland China	RMB200,000,000/ RMB200,000,000	40	40	40	Water distribution, reclaimed water treatment and heating services
天津市華博水務有限公司 ("Tianjin Huabo")*	PRC/Mainland China	RMB588,235,294/ RMB588,235,294	49	49	49	Sewage treatment and construction services
北控南南君悅(天津)投資合伙企业 (有限合伙)*	PRC/Mainland China	RMB556,050,000/ RMB3,111,500,000	6.5	(a)	(a)	Fund investment
北京北控國壽投資基金管理中心 (有限合伙)*	PRC/Mainland China	RMB2,470,400,000/ RMB24,002,400,000	–	(b)	(b)	Fund investment

Directly held by the Company

* In the opinion of the directors, the joint ventures were not individually material to the Group in the current and prior years. Hence, no disclosure of their financial information has been made in note (f) below.

@ In the opinion of the directors, the joint ventures were not individually material to the Group in the current year. Hence, no disclosure of their financial information has been made for the year ended 31 December 2019 in note (f) below.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

20. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes:

- (a) In 2017, the Group (as deferred limited partner) entered into a limited partnership agreement (the “Junyue Partnership Agreement”) with an investment management company (as preferential limited partner), and a joint venture investor (also as deferred limited partner) in relation to the establishment and management of a fund (the “Junyue Fund”). The Junyue Fund shall focus on investing in water and water environmental comprehensive projects in certain cities in Mainland China.

Pursuant to the Junyue Partnership Agreement, the capital commitment of the Junyue Fund is approximately RMB3.1 billion. As at 31 December 2019, the total investment contributed by the preferential limited partner and the Group as a deferred limited partner in the Junyue Fund amounted to RMB500 million (2018: RMB500 million) and RMB36 million (2018: RMB36 million), respectively.

The preferential limited partner shall have priority to be entitled to the expected principal and return among all the partners in distribution and dissolution. In the event of loss, the loss shall be shared by all the partners in accordance with the percentage of capital contribution.

The Group has engaged Valtech Valuation Advisory Limited in 2018 and 2019, an independent professionally qualified valuer, to measure the fair value of the undertakings provided by the Group as one of the deferred limited partners. In the opinion of the directors, the fair value of the undertakings was not material so no separate disclosure was made.

As all the significant relevant activities of the Junyue Fund require the unanimous consent from all limited partners, the Junyue Fund is accounted for as a joint venture.

- (b) In 2017, the Group (as intermediate limited partner) entered into a master limited partnership agreement (“China Life Partnership Agreement”) with China Life Insurance Company Limited (“China Life”) (as preferential limited partner) and a joint venture investor (as deferred limited partner) in relation to the establishment and management of a master fund. The master fund shall focus on investing in water and water environmental comprehensive projects which had been invested by different subordinated funds in Mainland China.

Pursuant to the China Life Partnership Agreement, the aggregate capital commitment of the master fund was approximately RMB24 billion. As at 31 December 2019, the total investment contributed by China Life in the master fund amounted to approximately RMB2,470 million (2018: RMB2,082 million). The intermediate and deferred limited partners are not required to contribute the capital unless and until the general partner may issue a written notice to them to seek the relevant capital contribution pursuant to the China Life Partnership Agreement. No capital was contributed by the intermediate and deferred limited partners and all the capital in the master fund has been invested to four subordinated funds as at 31 December 2019 and 2018.

China Life shall have priority to be entitled to the expected principal and return among all the partners in distribution and dissolution. In the event of loss, China Life shall share the loss lastly.

As all the significant relevant activities of the master fund require the unanimous consent from all limited partners, the master fund is accounted for as a joint venture.

- (c) In November 2018, the Group completed the acquisition of a 49% equity interest in a company and its subsidiaries which are engaged in the provision of sewage treatment and construction services in Tianjin City, the PRC through capital injection of HK\$957,411,000. As all the significant relevant activities of the group acquired require the unanimous consent from all parties, the acquisition is accounted for as a joint venture.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

20. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

- (d) The movements in the goodwill included in the investments in joint ventures during the year are as follows:

	2019 HK\$'000	2018 HK\$'000
Cost and net carrying amount:		
At 1 January	478,275	198,972
Acquisition of a joint venture	–	276,091
Exchange realignment	(4,840)	3,212
At 31 December	473,435	478,275

- (e) (i) Included in the amounts due from joint ventures of the Group as at 31 December 2019 was an advance to a joint venture of US\$26,390,000 (equivalent to HK\$206,341,000) (2018: US\$26,390,000 (equivalent to HK\$206,673,000)). The amount is unsecured, bears interest at a floating rate of LIBOR plus 2.8% per annum, and is repayable on demand. Interest income of HK\$10,805,000 (2018: HK\$10,315,000) was recognised in profit or loss during the year ended 31 December 2019.
- (ii) Included in the amounts due from joint ventures of the Group as at 31 December 2018 was a loan to a joint venture of RMB21,700,000 (equivalent to HK\$24,772,000). The amount was unsecured, bore interest at a fixed rate of 8% per annum and was repayable on 25 November 2019. Interest income of HK\$2,224,000 (2018: HK\$149,000) was recognised in profit or loss during the year ended 31 December 2019. The loan was fully settled as at 31 December 2019.
- (iii) Included in the amounts due from joint ventures of the Group as at 31 December 2018 were two loans to a joint venture totalling RMB34,980,000 (equivalent to HK\$39,932,000). One loan amount was unsecured, bore interest at a fixed rate of 4.35% per annum and was repayable on demand and the other loan amount bore interest at a fixed rate of 8% per annum and was repayable on 16 April 2019. Interest income of HK\$2,101,000 (2018: HK\$1,905,000) was recognised in profit or loss during the year ended 31 December 2019. The loans were fully settled as at 31 December 2019.
- (iv) Other than the above balances and those mentioned in note 6, the amounts due from/to joint ventures included in current assets and current liabilities of the Group as at 31 December 2019 are unsecured, interest-free and are repayable on demand. There were no recent history of default and past due amounts for the amounts due from joint ventures. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

20. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

(f) Disclosures of material joint ventures

The following tables illustrate the summarised financial information of the three material joint ventures in 2018, adjusted for any differences in accounting policies and reconciled to their carrying amounts in the financial statements:

	Tianjin Huabo® 2018 HK\$'000	Guiyang BEWG® 2018 HK\$'000	Luoyang BEWG® 2018 HK\$'000
Cash and cash equivalents	1,775,183	436,123	1,485,257
Other current assets	406,001	308,318	323,162
Current assets	2,181,184	744,441	1,808,419
Operating concessions	1,610,912	2,381,460	1,520,756
Other non-current assets	580,056	567,948	53,090
Non-current assets	2,190,968	2,949,408	1,573,846
Financial liabilities, excluding trade and other payables and provisions	(118,447)	(237,780)	–
Other current liabilities	(1,769,765)	(967,699)	(739,719)
Current liabilities	(1,888,212)	(1,205,479)	(739,719)
Non-current financial liabilities, excluding trade and other payables and provisions	(794,795)	–	(119,830)
Other non-current liabilities	(13,003)	(863,119)	(782,516)
Non-current liabilities	(807,798)	(863,119)	(902,346)
Net assets	1,676,142	1,625,251	1,740,200
Non-controlling interests	(245,955)	–	–
Net assets, excluding non-controlling interests	1,430,187	1,625,251	1,740,200
Reconciliation to the Group's investments in the joint ventures:			
Proportion of the Group's ownership	49%	45%	40%
Group's share of net assets of the joint ventures, excluding goodwill	700,791	731,363	696,080
Goodwill on acquisition	280,472	150,586	26,267
Carrying amount of the investments	981,263	881,949	722,347

NOTES TO FINANCIAL STATEMENTS

31 December 2019

20. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

(f) Disclosures of material joint ventures *(Continued)*

	Tianjin Huabo® 2018 HK\$'000	Guiyang BEWG® 2018 HK\$'000	Luoyang BEWG® 2018 HK\$'000
Revenue	211,392	1,023,727	983,213
Interest income	–	–	43,253
Depreciation and amortisation	(148,545)	(173,851)	(37,063)
Interest expenses	(25,519)	(751)	–
Income tax expense	(10,346)	(44,996)	(63,583)
Profit for the year	18,432	69,651	196,135
Other comprehensive loss for the year	–	(17,644)	–
Total comprehensive income for the year	18,432	52,007	196,135
Share of the joint ventures' profit for the year*	9,032	31,343	78,454
Share of the joint ventures' other comprehensive loss for the year	–	(7,939)	–
Dividend received	–	–	–

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

	2019 HK\$'000	2018 HK\$'000
Share of the joint ventures' profits and losses for the year*	551,395	335,736
Share of the joint ventures' total comprehensive income for the year	547,609	335,736
Aggregate carrying amount of the Group's investments in the joint ventures	7,976,242	4,697,368

* Total share of the joint ventures' profit for the year was HK\$551,395,000 (2018: HK\$454,565,000).



NOTES TO FINANCIAL STATEMENTS

31 December 2019

21. INVESTMENTS IN ASSOCIATES

	Notes	2019 HK\$'000	2018 HK\$'000
Investments in associates, included in non-current assets:			
Share of net assets		4,599,239	3,743,563
Goodwill on acquisition	(d)	663,063	665,112
		5,262,302	4,408,675
Due from associates, included in current assets	(b), 28	46,523	88,097
Due to associates, excluding trade payables, included in current liabilities	(b), 44	(62,000)	(432,491)
Total investments in associates		5,246,825	4,064,281

Notes:

(a) Particulars of the Group's interests in the major associates are as follows:

Company name	Place of incorporation	Issued capital/ paid-up capital	Percentage of				Principal activities
			Ownership interest attributable to the Group	Voting power	Profit sharing		
Beijing Enterprises Clean Energy Group Limited ("BE Clean Energy") [®]	Cayman Islands	HK\$63,525,397	31.88	31.88	31.88		Management of photovoltaic power business, wind power business, and clean heat supply business
Beijing Enterprises Urban Resources Group Limited [*]	Cayman Islands	HK\$270,000,000	35.00	35.00	35.00		Provision of environmental hygiene services, hazardous waste treatment services and others

[®] In the opinion of the directors, the associate was not individually material to the Group in the current year. Hence, no disclosure of its financial information had been made in note (e) below.

^{*} In the opinion of the directors, the associate was not individually material to the Group in the current and prior years. Hence, no disclosure of its financial information has been made in note (e) below.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

21. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

- (b) The balances with associates are unsecured, interest-free and are repayable on demand. There were no recent history of default and past due amounts for the amounts due from associates. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.
- (c) The Group's trade payable balance with an associate is included in trade payables and disclosed in note 43 to the financial statements.
- (d) The movements in the goodwill included in the investments in associates during the year are as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	665,112	693,617
Exchange realignment	(2,049)	(28,505)
At 31 December	663,063	665,112



NOTES TO FINANCIAL STATEMENTS

31 December 2019

21. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(e) Disclosures of a material associate

In the opinion of directors, the Groups's associates as at 31 December 2019 are not individually material. The following tables illustrate the summarised financial information of BE Clean Energy, the material associate in 2018, adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2018 HK\$'000
Current assets	14,669,499
Non-current assets, excluding goodwill	26,803,197
Goodwill on acquisition of the associate	534,785
Current liabilities	(12,594,257)
Non-current liabilities	(19,938,486)
Net assets	9,474,738
Net assets, excluding goodwill	8,939,953
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	31.88%
Group's share of net assets of the associate, excluding goodwill	2,850,057
Goodwill on acquisition	534,785
Carrying amount of the investment	3,384,842
Revenue	6,980,270
Profit for the year	1,377,956
Other comprehensive loss	(931,507)
Total comprehensive income for the year	446,449
Share of the associate's profit for the year [#]	402,296
Share of the associate's other comprehensive loss for the year	(282,228)
Dividend received	–
Fair value of the Group's investment, based on the market price of the associate	2,248,101

NOTES TO FINANCIAL STATEMENTS

31 December 2019

21. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

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

	2019 HK\$'000	2018 HK\$'000
Share of the associates' profit for the year [#]	384,986	57,368
Share of the associates' total comprehensive income	417,234	11,105
Aggregate carrying amount of the Group's investments in associates	5,262,302	1,023,833

[#] Total share of associates' profit for the year was HK\$384,986,000 (2018: HK\$459,664,000).

22. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK\$'000	2018 HK\$'000
Asset-backed note, at fair value	80,258	97,854

Notes:

- (a) The above asset-backed note was backed by guarantee receipts of certain sewage water plants in the PRC and will mature on 25 April 2024. It was mandatorily classified as a financial asset at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.
- (b) The fair values of the asset-backed note have been estimated on 31 December 2019 and 2018 by Valtech Valuation Advisory Limited, using a Monte Carlo simulation valuation technique based on the estimates on default rate and recovery rate of the industry adjusted to reflect the specific circumstances of the investments. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period. During the years ended 31 December 2019 and 2018, the related changes in fair value were not significant to the Group.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

22. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Notes: (Continued)

(b) *(Continued)*

The fair value of the Group's the asset-backed note was measured using significant unobservable inputs (Level 3 of fair value hierarchy). During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

Set out below is a summary of the valuation technique used and the key inputs to the valuation of financial assets at fair value through profit or loss together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

Valuation technique	Significant unobservable input		Sensitivity of fair value to the input
Monte Carlo simulation	Default rate	2019: 0.43% (2018: 1.26%)	5% increase/decrease in multiple would result in decrease in fair value by HK\$6,000 (2018: HK\$68,000)/increase in fair value by HK\$6,000 (2018: HK\$27,000)
	Recovery rate	2019: 37.20% (2018: 37.24%)	5% increase/decrease in multiple would result in increase in fair value by HK\$20,000 (2018: HK\$7,000)/decrease in fair value by HK\$10,000 (2018: HK\$10,000)

The movements in fair value measurements within Level 3 are as follows:

	Financial assets at fair value through profit or loss HK\$'000
At 1 January 2018	119,048
Redemption for the year	(16,301)
Exchange realignment	(4,893)
At 31 December 2018 and 1 January 2019	97,854
Redemption for the year	(16,239)
Exchange realignment	(1,357)
At 31 December 2019	80,258

NOTES TO FINANCIAL STATEMENTS

31 December 2019

23. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 HK\$'000	2018 HK\$'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value	921,048	908,331
Unlisted equity investments, at fair value	483,331	454,348
	1,404,379	1,362,679

- (a) The above equity investments were irrevocably designated as equity instruments at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.
- (b) The fair values of equity investments designated at fair value through other comprehensive income has been estimated using the market approach by reference to the quoted market price was classified as level 2 to the fair value hierarchy.

The fair values of the remaining equity investments designated at fair value through other comprehensive income have been estimated on 31 December 2019 and 2018 by Beijing North Asia Asset Assessment Firm, using the market approach were classified as level 3 to the fair value hierarchy. The directors determine comparable public companies (peers) based on industry, size and leverage, and calculate an appropriate price multiple, such as the price to book value ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by net assets. The multiple is then discounted for considerations such as illiquidity based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding net assets of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

23. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

(b) *(Continued)*

Below is a summary of the valuation technique used and the key inputs to the valuation of equity investments designated at fair value through other comprehensive income together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Valuation multiples	Average P/B multiple of peers	2019: 1.6x to 4.3x (2018: 1.7x to 4.0x)	5% increase/decrease in multiple would result in increase/decrease in fair value by HK\$6,351,000 (2018: HK\$7,719,000)
	Discount for lack of marketability	2019: 23.0% to 25.0% (2018: 14.0% to 24.0%)	5% increase/decrease in discount would result in decrease/increase in fair value by HK\$4,488,000 (2018: HK\$16,911,000)

NOTES TO FINANCIAL STATEMENTS

31 December 2019

23. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

(c) Fair value hierarchy

The movements in fair value measurements within Level 3 are as follows:

	<i>Note</i>	Equity investments designated at fair value through other comprehensive income HK\$'000
At 1 January 2018		347,795
Total losses recognised in other comprehensive income		(5,395)
Redefined interest in a former subsidiary	48	46,994
Additions		3,176
Exchange realignment		(501)
At 31 December 2018 and 1 January 2019		392,069
Redefined interest in a former subsidiary	48	1,238
Additions		30,082
Disposals		(455)
Exchange realignment		(1,882)
At 31 December 2019		421,052

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).



NOTES TO FINANCIAL STATEMENTS

31 December 2019

24. NON-CURRENT ASSETS HELD FOR SALE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Receivables under service concession arrangements	328,517	316,488

Certain sewage water plants under service concession arrangements were classified as non-current assets held for sale as the carrying amounts of the assets will be recovered by the Group principally through the sale of the related plants.

25. INVENTORIES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Raw materials	234,419	217,141
Low value consumables	7,518	7,385
Finished goods	1,137	991
	243,074	225,517

NOTES TO FINANCIAL STATEMENTS

31 December 2019

26. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	2019 HK\$'000	2018 HK\$'000
Contract costs arising from construction services provided plus recognised profits less recognised losses to date	49,787,099	37,866,458
Impairment (<i>note</i>)	(151,797)	(135,307)
	49,635,302	37,731,151
Portion classified as current assets	(2,988,428)	(3,008,591)
	46,646,874	34,722,560
Non-current portion		

Amounts due from contract customers are initially recognised for revenue earned from the construction services as the receipt of consideration is conditional on successful completion of construction. Upon completion of construction and acceptance by the customer, the amounts recognised as amounts due from contract customers are reclassified to receivables under service concession arrangements for BOT arrangements and trade receivables for other construction contracts. The increase in amounts due from contract customers in 2019 and 2018 was the result of the increase in the ongoing provision of construction services during the year. During the year ended 31 December 2019, HK\$16.5 million (2018: HK\$79.2 million) was recognised as an allowance for expected credit losses on amounts due from contract customers. The Group's trading terms and credit policy with customers are disclosed in notes 18 and 27 to the financial statements, respectively.

As at 31 December 2019, amounts due from contract customers of HK\$367,801,000 (2018: HK\$232,947,000) were designated as a charge for the repayment of corporate bonds, details of which are disclosed in note 37 to the financial statements.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

26. AMOUNTS DUE FROM CONTRACT CUSTOMERS *(Continued)*

Note: The movements in the loss allowance for impairment of amounts due from contract customers are as follows:

	2019 HK\$'000	2018 HK\$'000
At 1 January	135,307	57,154
Impairment losses, net	16,490	79,155
Exchange realignment	–	(1,002)
At 31 December	151,797	135,307

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2019, the probability of default applied ranged from 0.08% to 1.86% (2018: 0.06% to 1.93%) and the loss given default was estimated to range from 55.83% to 57.43% (2018: 55.83% to 57.43%).

The increase (2018: increase) in the loss allowance was due to the significant changes in the gross carrying amount of the amounts due from contract customers mainly attributable to:

- The acquisition of new subsidiaries and new ongoing BOT projects.
- The significant increase in credit risk of certain amounts due from contract customers during the current and prior years.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

26. AMOUNTS DUE FROM CONTRACT CUSTOMERS *(Continued)*

Set out below is the information about the credit risk exposure of the Group's amounts due from contract customers using the probability of default approach:

	Stage 1 Collective <i>HK\$'000</i>	Stage 2 Collective <i>HK\$'000</i>	Stage 3 Collective <i>HK\$'000</i>	POCI <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2019					
ECL allowance as at 1 January 2019	54,622	80,685	–	–	135,307
New assets originated	8,748	–	–	–	8,748
Transfers to Stage 2	(42,807)	42,807	–	–	–
Impact on year end ECLs of exposures transferred between stages during the year	–	7,742	–	–	7,742
At 31 December 2019	20,563	131,234	–	–	151,797
As at 31 December 2018					
ECL allowance as at 1 January 2018	30,094	27,060	–	–	57,154
New assets originated	25,914	–	–	–	25,914
Exchange realignment	(234)	(768)	–	–	(1,002)
Transfers to Stage 2	(1,152)	1,152	–	–	–
Impact on year end ECLs of exposures transferred between stages during the year	–	53,241	–	–	53,241
At 31 December 2018	54,622	80,685	–	–	135,307



NOTES TO FINANCIAL STATEMENTS

31 December 2019

27. TRADE RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables	11,050,283	7,169,412
Impairment (<i>note (c)</i>)	(87,348)	(69,061)
	10,962,935	7,100,351
Portion classified as current assets	(6,324,510)	(4,196,758)
Non-current portion	4,638,425	2,903,593

Notes:

- (a) The Group's trade receivables arise from the provision of construction services for comprehensive renovation projects, water distribution services on the Build-Own-Operate basis, technical and consultancy services and sale of machineries. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which will settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade receivables of certain construction services for comprehensive renovation projects which bear interest at rates ranging from 4.8% to 15.0% (2018: 5.7% to 15.0%) per annum, all other trade receivables are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

27. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(a) *(Continued)*

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	2019 HK\$'000	2018 HK\$'000
Billed:		
Within 3 months	2,518,632	1,587,583
4 to 6 months	657,255	519,304
7 to 12 months	442,774	404,426
Over 1 year	2,705,849	1,708,875
Balance with extended credit period	39,846	40,483
	6,364,356	4,260,671
Unbilled*	4,598,579	2,839,680
	10,962,935	7,100,351

* *The unbilled balance was attributable to certain construction services rendered under contracts for comprehensive renovation projects which will be billed in accordance with the repayment terms stipulated in relevant construction service agreements entered into between the Group and the contract customers.*

- (b) Included in the trade receivables of the Group as at 31 December 2019 were (i) an aggregate amount of HK\$2,688,000 (2018: HK\$5,504,000) due from 北京北控環保工程技術有限公司, a wholly-owned subsidiary of BEHL, which is a substantial beneficial shareholder of the Company, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group; and (ii) an amount of HK\$2,097,000 (2018: HK\$2,130,000) due from a joint venture of the Group, arising from the provision of technical services carried out in the ordinary course of business of the Group. The balances with these companies are unsecured, interest-free and repayable on credit terms similar to those offered to the major customers of the Group.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

27. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(c) The movements in the Group's the loss allowance for impairment of trade receivables during the year are as follows:

	2019 HK\$'000	2018 HK\$'000
At 1 January	69,061	39,292
Impairment losses, net	19,124	31,218
Exchange realignment	(837)	(1,449)
At 31 December	87,348	69,061

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2019, the probability of default applied ranged from 0.08% to 0.14% (2018: 0.06% to 0.46%) and the loss given default was estimated to be ranged from 57.43% to 69.64% (2018: 55.83% to 69.64%). The loss allowance for impairment of trade receivables during the year was not significant to the Group.

The increase (2018: increase) in the loss allowance was due to significant changes in the gross carrying amount of the trade receivables mainly contributed to increase in ongoing construction projects and provision of services.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

27. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(c) *(Continued)*

Set out below is the information about the credit risk exposure of the Group's trade receivables using the probability of default approach:

	Stage 1 Collective HK\$'000	Stage 2 Collective HK\$'000	Stage 3 Collective HK\$'000	POCI HK\$'000	Total HK\$'000
As at 31 December 2019					
ECL allowance as at 1 January 2019	69,061	–	–	–	69,061
New assets originated	19,124	–	–	–	19,124
Exchange realignment	(837)	–	–	–	(837)
At 31 December 2019	87,348	–	–	–	87,348
	Stage 1 Collective HK\$'000	Stage 2 Collective HK\$'000	Stage 3 Collective HK\$'000	POCI HK\$'000	Total HK\$'000
As at 31 December 2018					
ECL allowance as at 1 January 2018	39,292	–	–	–	39,292
New assets originated	31,218	–	–	–	31,218
Exchange realignment	(1,449)	–	–	–	(1,449)
At 31 December 2018	69,061	–	–	–	69,061

(d) The Group did not hold any material collateral or other credit enhancements over trade receivable balances.

(e) As at 31 December 2019, trade receivables of HK\$542,008,000 (2018: HK\$581,461,000) were designated as a charge for the repayment of the RM Bonds, details of which are disclosed in note 37 to the financial statements.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2019 HK\$'000	2018 HK\$'000
Prepayments		472,022	276,347
Deposits and other debtors	(a)	5,280,769	3,979,283
Advances to subcontractors and suppliers	(b)	5,553,654	3,050,301
Due from joint ventures	20(e)	192,069	2,293,324
Due from associates	21(b)	46,523	88,097
Due from other related parties	29	526,295	467,099
		12,071,332	10,154,451
Impairment	(c)	(242,253)	(174,474)
		11,829,079	9,979,977
Portion classified as current assets		(9,178,814)	(7,382,082)
Non-current portion		2,650,265	2,597,895

Notes:

(a) The Group's deposits and other debtors as at 31 December 2019 and 2018 included, inter alia, the following:

- (i) loans and related interest receivables of HK\$626,022,000 (2018: HK\$636,027,000) in aggregate provided to various government authorities in Mainland China as part of the construction funding for certain comprehensive renovation projects undertaken by these government authorities. Certain of these loans bear interest at 4.75% to 10% per annum.

The above loans and the corresponding interest receivables of HK\$11,236,000 (2018: HK\$11,416,000) in aggregate are repayable within one year after the reporting period and are classified as current assets, and HK\$614,786,000 (2018: HK\$624,611,000) in aggregate are classified as non-current assets. The above balances are secured by:

- (1) proceeds from the disposals of certain land use rights owned by the relevant government authorities in Mainland China; and
- (2) proceeds from the disposal of the 31.5% equity interest in Beikong Shudu held by two government authorities in Mainland China.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(a) *(Continued)*

- (ii) a loan amount of HK\$449,438,000 (2018: HK\$456,621,000) provided to an immediate holding company of a then joint venture partner for capital injection of the joint venture which was disposed of by the Group in prior years. The balance is secured, bears interest at 12% per annum and is repayable on demand and is classified as a non-current asset.
- (iii) investment deposits of HK\$110,917,000 (2018: HK\$195,966,000) in aggregate paid to independent third parties in connection with the Group's acquisition of the controlling equity interests in certain water distribution and consultancy operations in the PRC. The balances are classified as non-current assets.
- (iv) investment/bidding deposits of HK\$174,812,000 (2018: HK\$112,214,000) in aggregate paid to certain government authorities in the PRC for acquiring certain sewage and reclaimed water treatment operations, of which HK\$174,250,000 (2018: HK\$111,643,000) and HK\$562,000 (2018: HK\$571,000) are classified as current and non-current assets, respectively.
- (v) consideration receivables amounting to HK\$371,755,000 (2018: HK\$377,696,000) in aggregate from the disposal of parcels of land in the PRC which are classified as non-current assets.

(b) Included in the Group's advances to subcontractors and suppliers were advance payments in an aggregate amount of HK\$354,461,000 (2018: HK\$360,126,000) made by certain subsidiaries of the Group to subcontractors for construction services to be performed on a certain comprehensive renovation project entered into between the Group and government authorities in the PRC. The construction of this project was delayed and the subcontractor had returned an aggregate amount of HK\$354,461,000 (2018: HK\$360,126,000) of these advance payments to the other subsidiaries of the Group. As the criteria for offsetting financial instruments are not met, the refunded amounts are included in "Other payables and accruals" on the face of the consolidated statement of financial position (*note 44*).

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

	2019 HK\$'000	2018 HK\$'000
At 1 January	174,474	210,004
Impairment losses/(reversal of impairment losses), net	70,566	(32,226)
Exchange realignment	(2,787)	(3,304)
At 31 December	242,253	174,474

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probability of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2019, the probability of default applied ranged from 0.08% to 0.48% (2018: 0.06% to 0.54%) and the loss given default was estimated to range from 55.83% to 69.64% (2018: 55.83% to 69.64%). The loss allowance for impairment of deposits and other receivables during the years ended 31 December 2019 and 2018 were not significant to the Group.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

29. BALANCES WITH RELATED PARTIES

The balances with related parties are unsecured, interest-free and are repayable on demand, except for the following:

The balances with related companies of the Group included in receivables under service concession arrangements, trade receivables, other receivables, trade payables and other payables are disclosed in notes 18, 27, 28, 43 and 44 to the financial statements, respectively.

30. RESTRICTED CASH AND PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	2019 HK\$'000	2018 HK\$'000
Cash and bank balances:		
Placed in banks	9,455,328	9,080,357
Placed in a financial institution (note 54)	2,756,679	2,737,338
Time deposits:		
Placed in banks	160,735	1,776,801
Total cash and bank balances	12,372,742	13,594,496
Less: Restricted cash and pledged deposits (note (a))	(212,827)	(656,849)
Cash and cash equivalents	12,159,915	12,937,647

Notes:

- (a) The Group's restricted cash and pledged deposits as at 31 December 2019 included the following:
- (i) bank deposits of HK\$207,259,000 (2018: HK\$648,360,000) which could only be used for the construction of sewage treatment facilities and other infrastructural facilities undertaken by the Group; and
 - (ii) bank deposits of HK\$5,568,000 (2018: HK\$8,489,000) pledged to banks to secure certain banking facilities granted to the Group (note 36).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

30. RESTRICTED CASH AND PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

(Continued)

Notes: (Continued)

(b) The carrying amounts of the Group's cash and bank balances are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
MOP	998	15,033
HK\$	308,059	903,095
RMB	10,847,836	11,613,931
US\$	192,336	48,232
MYR	134,451	271,629
EUR	469,788	372,022
SGD	50,969	44,802
AUD	368,305	325,752
	12,372,742	13,594,496

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(c) The Group's bank balances are deposited with creditworthy banks with no recent history of defaults.

31. SHARE CAPITAL

Shares

	2019 HK\$'000	2018 HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.10 each	1,500,000	1,500,000
Issued and fully paid:		
10,021,195,871 (2018: 9,412,988,721) ordinary shares of HK\$0.10 each	1,002,120	941,299



NOTES TO FINANCIAL STATEMENTS

31 December 2019

31. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

A summary of the movements in the Company's issued share capital during the years ended 31 December 2019 and 2018 is as follows:

		Number of ordinary shares in issue	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
	Notes				
At 1 January 2018		8,793,817,196	879,382	5,068,783	5,948,165
Exercise of share options	(a)	2,580,000	258	7,729	7,987
Shares repurchased and cancelled	(b)	(2,900,000)	(290)	(12,220)	(12,510)
Issue of shares	(c)	619,491,525	61,949	3,553,021	3,614,970
Transfer to capital surplus	(d)	–	–	(8,617,313)	(8,617,313)
At 31 December 2018 and 1 January 2019		9,412,988,721	941,299	–	941,299
Exercise of share options	(a)	9,810,000	981	29,899	30,880
Issue of shares	(e)	598,397,150	59,840	2,507,284	2,567,124
At 31 December 2019		10,021,195,871	1,002,120	2,537,183	3,539,303

Notes:

- (a) During the year, the subscription rights attaching to 9,810,000 (2018: 2,580,000) share options were exercised at a subscription price of HK\$2.244 (2018: HK\$2.244) per ordinary share during the year, resulting in the issue 9,810,000 (2018: 2,580,000) ordinary shares of the Company for a total cash consideration of approximately HK\$22,014,000 (2018: HK\$5,790,000) (before expenses). At the time when the share options were exercised, the aggregate fair value of these share options of HK\$8,869,000 (2018: HK\$2,199,000) previously recognised in the share option reserve was transferred to the share premium account. Further details of the share options are set out in note 32 to the financial statements.
- (b) During the prior year, the Company repurchased 2,900,000 ordinary shares on the Stock Exchange for a total consideration of HK\$12,510,000 (after expenses). The purchased shares were cancelled during that year and the issued share capital of the Company was reduced by the par value of approximately HK\$290,000. The premium and expenses paid on the repurchase of the shares of HK\$12,220,000 were charged to the share premium of the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

31. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

Notes: (Continued)

- (c) On 24 January 2018, the Company entered into a placing agreement with China International Capital Corporation Hong Kong Securities Limited, Daiwa Capital Markets Hong Kong Limited, Deutsche Bank AG, Hong Kong Branch, Haitong International Securities Company Limited and UBS AG, Hong Kong Branch (collectively as the “Placing Agents”), pursuant to which, the Placing Agents agreed to procure not less than six places to subscribe an aggregate of 450,000,000 new ordinary shares of the Company at a placing price of HK\$5.9 per share. The placing was completed on 1 February 2018 and the Group raised a total of HK\$2,655 million, before expenses.

On the same date, the Company entered into a subscription agreement with Beijing Enterprises Environmental Construction Limited (the “Subscriber”), a controlling shareholder of the Company, pursuant to which, the Company agreed to allot and issue, and the Subscriber agreed to subscribe for 169,491,525 new ordinary shares of the Company at a price of HK\$5.9 per share. The subscription was completed on 4 April 2018 and the Group raised a total of approximately HK\$1,000 million, before expenses.

- (d) Pursuant to a resolution passed at the special general meeting held on 10 December 2018, an amount of approximately HK\$8,617,313,000 was transferred from the share premium account to the contributed surplus. Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its shareholders out of the contributed surplus under certain circumstances.

- (e) On 18 January 2019, the Company entered into a subscription agreement with China Yangtze Power International (Hongkong) Co., Limited (the “CYPI Subscriber”), pursuant to which the Company agreed to allot and issue, and the CYPI Subscriber agreed to subscribe for 470,649,436 new ordinary shares of the Company at a price of HK\$4.29 per share. The subscription was completed on 18 March 2019 and the Group raised a total of approximately HK\$2,019.1 million, before expenses.

On 18 January 2019, the Company entered into a subscription agreement with Beijing Enterprises Environmental Construction Limited (the “BEECL Subscriber”), a controlling shareholder of the Company, pursuant to which the Company agreed to allot and issue, and the BEECL Subscriber agreed to subscribe for 127,747,714 new ordinary shares of the Company at a price of HK\$4.29 per share. The subscription was completed on 18 March 2019 and the Group raised a total of approximately HK\$548.0 million, before expenses.

Share options

Details of the Company’s share option scheme and the share options issued under the scheme are included in note 32 to the financial statements.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

32. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the directors and independent non-executive directors of the Company, and other employees of the Group. The Scheme became effective on 28 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

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

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to five years and ends on a date which is not later than 10 years from the date of grant of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the closing price of ordinary shares of the Company on Stock Exchange on the date of grant of the share options; (ii) the average closing price of ordinary shares of the Company on Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of ordinary shares of the Company of HK\$0.10. The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in share capital of the Company.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

32. SHARE OPTION SCHEME *(Continued)*

The movements in share options outstanding under the Scheme during the year are as follows:

	2019		2018	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	2.266	266,936	2.266	269,516
Exercised during the year	2.244	(9,810)	2.244	(2,580)
At 31 December	2.267	257,126	2.266	266,936

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2019 Number of options '000	2018 Number of options '000	Exercise price* HK\$ per share	Exercise periods
21,196	21,426	2.244	24-4-2014 to 23-4-2023
36,184	39,014	2.244	24-4-2015 to 23-4-2023
51,306	51,736	2.244	24-4-2016 to 23-4-2023
72,100	74,610	2.244	24-4-2017 to 23-4-2023
74,340	78,150	2.244	24-4-2018 to 23-4-2023
2,000	2,000	5.180	1-6-2016 to 27-3-2024
257,126	266,936		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

Notes:

- (a) The fair value of the share options granted in prior years were fully amortised in 2018. No share option expense was recognised during the year ended 31 December 2019. The Group recognised a share option expense of HK\$4,688,000 during the year ended 31 December 2018.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

32. SHARE OPTION SCHEME *(Continued)*

Notes: (Continued)

- (b) The 9,810,000 (2018: 2,580,000) share options exercised during the year resulted in the issue of 9,810,000 (2018: 2,580,000) ordinary shares of the Company and new share capital of HK\$981,000 (2018: HK\$258,000), as further detailed in note 31 to the financial statements.
- (c) At the end of the reporting period, the Company had 257,126,000 share options outstanding under the Scheme which represented approximately 2.6% of the Company's shares in issue as at 31 December 2019. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 257,126,000 additional ordinary shares of the Company and additional share capital of HK\$25,713,000 and share premium of HK\$792,901,000 (before issue expenses, and taking into account the share option reserve as at 31 December 2019).

Subsequent to the end of the reporting period, no share options were exercised.

At the date of approval of these financial statements, the Company had 257,126,000 share options outstanding under the share option scheme, which represented approximately 2.6% of the Company's share in issue as at that date.

33. SHARE AWARD SCHEME

The Company operates a share award scheme (the "Share Award Scheme") for the purpose of recognising the contributions by certain employees, directors and consultants of the Group and encourage them for the continual operation and development of the Group, and attract excellent talent for further development of the Group. The Share Award Scheme became effective on 17 December 2018 and shall be valid and effective for a term of 5 years commencing on the adoption date and ending on the expiry of the trust period which may be extended by the Board at its absolute discretion.

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

The Company shall not make any further award of awarded shares which will result in the aggregate number of shares held by the trustee under the Share Award Scheme at any single point in time exceeding 2% of the total issued share capital of the Company from time to time. Further details of the Share Award Scheme are set out in the announcement of the Company dated 17 December 2018.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

33. SHARE AWARD SCHEME *(Continued)*

Details of the awards granted under the Share Award Scheme during the year are as follows:

Date of award	Number of shares awarded	Average fair value per share (HK\$)
26 September 2019 <i>(note (a))</i>	15,374,599	3.54

The movement of the Company's shares held under the Share Award Scheme account during the year ended 31 December 2019 is as follows:

	Number of ordinary shares	Amount HK\$'000
At 1 January 2019	—	—
Shares purchased for the share award scheme <i>(note (b))</i>	24,938,000	110,014
At 31 December 2019	24,938,000	110,014

Notes:

- (a) During the year, on 26 September 2019, the Company granted an aggregate of 5,041,234 awarded shares to five directors, namely Mr. Zhou Min, Mr. Li Haifeng, Mr. Zhang Tiefu, Mr. Tung Woon Cheung Eric and Mr. Li Li and 10,333,365 awarded shares (collectively referred to as the "Awarded Shares") to other employees of the Group (collectively referred to as the "Selected Participants"). Further details of the grant are set out in the announcement of the Company dated 26 September 2019.

Subject to the acceptance of the Selected Participants and that the Selected Participants remain as eligible persons and the Awarded Shares will be transferred to the Selected Participants at nil consideration while exercised.

- (b) During the year ended 31 December 2019, 24,938,000 ordinary shares of the Company were purchased by the trustee from the open market at an aggregate consideration of approximately HK\$110,014,000. The amount has been deducted from shareholders' equity and recorded in "Shares held under the share award scheme" of the Group.

The fair value of equity-settled share awards granted during the year ended 31 December 2019 amounted to HK\$54,488,000 in total, which was estimated as at the date of grant using the binomial model, taking into account the terms and conditions upon which the awards were granted. The following table lists the inputs to the model used:

	2019
Dividend yield (%)	4.71
Historical volatility (%)	14.12 – 30.82
Risk-free interest rate (%)	1.66
Effective life of awards (<i>year</i>)	1.53
Share price as at the valuation date (<i>HK\$ per share</i>)	4.06

The Group recognised a share award expense of HK\$27,244,000 during the year ended 31 December 2019 in respect of the Awarded Shares granted in the current year. As at 31 December 2019, there were 24,938,000 ordinary shares held through the trustee of the Share Award Scheme.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

34. RESERVES

- (a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.
- (b) The share option and share award reserve comprises the fair value of share options vested which are yet to be exercised and the share awards granted, as further explained in the accounting policy of share-based payments in note 3.4 to the financial statements. The amount will either be transferred to the share premium account when the related share options and share awards are exercised, or transferred to retained profits should the related share options or share awards lapse or be forfeited.
- (c) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries, joint ventures and associates. None of the Group's PRC reserve funds as at 31 December 2019 and 2018 were distributable in the form of cash dividends.

35. PERPETUAL CAPITAL INSTRUMENTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
At 1 January	6,350,900	6,623,082
Share of profit for the year	234,830	246,012
Distribution for the year	(234,830)	(246,012)
Exchange realignment	(99,901)	(272,182)
At 31 December	6,250,999	6,350,900

In 2016, a PRC wholly-owned subsidiary of the Group issued two perpetual capital instruments (the "Perpetual Capital Instruments") with the aggregate principal amount of RMB5,600,000,000 (approximately HK\$6,588,235,000). Net proceeds after deducting the issuance costs amounted to RMB5,563,389,000 (approximately HK\$6,545,163,000).

One of the Perpetual Capital Instruments with a principal amount of RMB2,800,000,000 (approximately HK\$3,294,118,000) is guaranteed by the Company. There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the Group. The Perpetual Capital Instruments are classified as equity instruments.

During the year ended 31 December 2019, distributions with an aggregate of RMB206,650,000 (approximately HK\$234,830,000) (2018: RMB206,650,000 (approximately HK\$246,012,000)) were declared to the holders of the Perpetual Capital Instruments, which RMB48,083,000 (approximately HK\$54,026,000) (2018: RMB48,083,000 (approximately HK\$54,889,000)) have not been paid and recorded in other payables as at 31 December 2019.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

36. BANK AND OTHER BORROWINGS

	2019 HK\$'000	2018 HK\$'000
Bank loans:		
Secured	14,897,328	13,541,222
Unsecured	22,638,038	16,834,240
	37,535,366	30,375,462
Other loans:		
Secured	306,798	45,656
Unsecured	1,534,063	1,652,281
	1,840,861	1,697,937
Total bank and other borrowings	39,376,227	32,073,399
Analysed into:		
Bank loans repayable:		
Within one year or on demand	8,837,512	3,903,499
In the second year	3,730,402	6,294,130
In the third to fifth years, inclusive	16,636,955	15,704,650
Beyond five years	8,330,497	4,473,183
	37,535,366	30,375,462
Other loans repayable:		
Within one year or on demand	185,680	388,340
In the second year	243,394	54,016
In the third to fifth years, inclusive	458,466	298,738
Beyond five years	953,321	956,843
	1,840,861	1,697,937
Total bank and other borrowings	39,376,227	32,073,399
Portion classified as current liabilities	(9,023,192)	(4,291,839)
Non-current portion	30,353,035	27,781,560



NOTES TO FINANCIAL STATEMENTS

31 December 2019

36. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

- (a) The carrying amounts of the Group's bank and other borrowings are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
HK\$	15,412,415	13,909,487
RMB	20,924,202	15,142,045
US\$	15,123	23,664
EUR	648,228	848,911
SGD	663,745	563,000
AUD	1,670,630	1,586,292
MYR	41,884	–
	39,376,227	32,073,399

- (b) The effective interest rates (per annum) at the end of the reporting period were as follows:

	2019	2018
Bank loans:		
Secured	2.24% – 5.39%	3.29% – 5.64%
Unsecured	1.70% – 5.64%	2.05% – 4.99%
Other loans:		
Secured	1.20% – 5.33%	1.20%
Unsecured	1.20% – 5.68%	1.20% – 6.50%

- (c) Certain of the Group's bank loans are secured by:

- (i) mortgages over certain sewage treatment and water distribution concession rights (comprising operating concessions and receivables under service concession arrangements) in an aggregate carrying amount of HK\$14,547,127,000 (2018: HK\$10,878,619,000) as at 31 December 2019, which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors (*note 18*);
- (ii) guarantees given by the Company and/or its subsidiaries;
- (iii) bank deposits of HK\$5,568,000 (2018: HK\$8,489,000) pledged to banks to secure certain banking facilities granted to the Group;

NOTES TO FINANCIAL STATEMENTS

31 December 2019

36. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(c) *(Continued)*

(iv) mortgages over certain land use rights and buildings and investment properties in Mainland China in an aggregate carrying amount of HK\$1,657,053,000 (2018: HK\$1,738,343,000) *(notes 14 and 15)*; and

(v) pledges over the Group's equity interests in certain subsidiaries.

(d) The Group's bank and other borrowings bear interest at floating rates, except for the following:

(i) bank and other loans in an aggregate principal amount of HK\$289,888,000 (2018: HK\$364,771,000) bearing interest at fixed rates ranging from 1.2% to 6.12% (2018: 1.2% to 6.12%) per annum; and

(ii) three (2018: three) interest-free government loans in an aggregate principal amount of HK\$26,744,000 (2018: HK\$27,555,000).

(e) Loan agreements of certain bank loans of the Group in an aggregate carrying amount of HK\$17,672,758,000 (2018: HK\$15,713,398,000) as at 31 December 2019 include covenants imposing specific performance obligations on BEHL, a substantial beneficial shareholder of the Company, among which any one of the following events would constitute events of default on the loan facilities:

(i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35%, where applicable, of the issued share capital of the Company;

(ii) if Beijing Enterprises Group Company Limited ("BEGCL"), a substantial shareholder of the Company, does not or ceases to beneficially own, directly or indirectly, at least 40%, where applicable, of the voting rights in BEHL; and/or

(iii) if BEHL/BEGCL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

Based on the directors' best belief and knowledge, none of the above events took place during the year and as at the date of approval of these financial statements.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

37. CORPORATE BONDS

	2019 HK\$'000	2018 HK\$'000
Secured corporate bonds repayable:		
Within one year	228,456	–
In the second year	171,342	225,388
In the third to fifth years, inclusive	360,610	473,184
Beyond five years	–	56,848
	760,408	755,420
Unsecured corporate bonds, repayable:		
Within one year	1,737,701	4,341,192
In the second year	6,615,947	1,479,582
In the third to fifth years, inclusive	8,342,918	13,998,212
Beyond five years	1,107,930	–
	17,804,496	19,818,986
Total corporate bonds	18,564,904	20,574,406
Portion classified as current liabilities	(1,966,157)	(4,341,192)
Non-current portion	16,598,747	16,233,214

Corporate bonds of the Group as at 31 December 2019 and 2018 comprised:

- (i) corporate bonds with an aggregate principal amount of US\$500,000,000 (the “US\$ Bonds”) issued by a wholly-owned subsidiary of the Company to certain institutional investors on 6 May 2013 pursuant to the subscription agreement dated 26 April 2013. The subsidiary redeemed US\$20,000,000 from the principal amount during the period from September 2016 to December 2016. The remaining portion of the principal amount, which was redeemed on the maturity date of the US\$ Bonds, i.e. 6 May 2018, bore interest at a rate of 4.625% per annum and was guaranteed by the Company. The bonds were fully redeemed in 2018;
- (ii) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the “RMB Bonds”) issued by a wholly-owned subsidiary of the Group to two institutional investors in April 2016 pursuant to the subscription agreement dated 25 April 2016, bearing interest at a rate of 3.60% per annum and are guaranteed by the Company. The RMB Bonds are due for repayment on 25 April 2021. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the subsidiary of the Group shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Group. The Group repaid RMB1,746,599,000 as at 31 December 2019;

NOTES TO FINANCIAL STATEMENTS

31 December 2019

37. CORPORATE BONDS *(Continued)*

- (iii) corporate bonds with an aggregate principal amount of RMB4,000,000,000 (the “Panda Bonds”) issued by the Company to certain institutional investors in July 2016 pursuant to the subscription agreement dated 22 July 2016, bearing interest at rates of 3.00% and 3.33% per annum. The Panda Bonds are due for repayment on 28 July 2021 and 28 July 2023. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company. Further details of the Panda Bonds are set out in the Company’s announcements dated 25 July 2016. The Group repaid RMB1,800,000,000 as at 31 December 2019;
- (iv) corporate bonds with an aggregate principal amount of RMB700,000,000 (the “Green Bonds”) issued by the Company to certain institutional investors in August 2016, bearing interest at a rate of 3.25% per annum. The Green Bonds are due for repayment on 3 August 2024. Three years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company. Further details of the Green Bonds are set out in the Company’s announcements dated 22 August 2016;
- (v) corporate bonds with an aggregate principal amount of RMB200,000,000 (the “Second RMB Bonds”) issued by a 60%-owned subsidiary of the Group to two institutional investors in November 2016 pursuant to the subscription agreement dated 14 November 2018. The subsidiary redeemed RMB190,000,000 from the principal amount in November 2018. The remaining portion of the principal amount, which was due on 15 November 2019, bore interest at a rate of 4% per annum and was guaranteed by a wholly-owned subsidiary of the Company. The bonds were fully repaid in 2019;
- (vi) corporate bonds with an aggregate principal amount of RMB1,300,000,000 (the “Second Panda Bonds”) issued by the Company to certain institutional investors in August 2017, bearing interest at a rate of 5.20% per annum. The Second Panda Bonds are due for repayment on 2 August 2022. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company;
- (vii) corporate bonds with an aggregate principal amount of RM400,000,000 (the “RM Bonds”) issued by a wholly-owned subsidiary to certain institutional investors in July 2017, bearing interest at rates ranging from 5.1% to 5.5% per annum and are guaranteed by the Company. Trade receivables of MYR284,698,000 (equivalent to HK\$542,008,000) (2018: MYR307,001,000 (equivalent to HK\$581,461,000)) (*note 27*) and amounts due from contract customers of MYR193,193,000 (equivalent to HK\$367,801,000) (2018: MYR122,992,000 (equivalent to HK\$232,947,000)) (*note 26*) were designated as a charge for the repayment of the RM Bonds. The RM Bonds are due for repayment starting from 17 July 2020;
- (viii) corporate bonds with an aggregate principal amount of US\$500,000,000 (the “Second US\$ Bonds”) issued by a wholly-owned subsidiary to certain institutional investors in May 2018, bearing interest rate of 4.95% per annum and are guaranteed by the company. The Second US\$ Bonds are due for repayment in May 2023;



NOTES TO FINANCIAL STATEMENTS

31 December 2019

37. CORPORATE BONDS *(Continued)*

- (ix) corporate bonds with an aggregate principal amount of RMB3,000,000,000 (the “Third Panda Bonds”) issued by the Company to certain institutional investors in May 2018 pursuant to the offering announcement dated 28 May 2018, bearing interest at rates of 4.92% and 5.1% per annum. The Third Panda Bonds are due for repayment on 25 May 2023 and 25 May 2025. Two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company;
- (x) corporate bonds with an aggregate principal amount of RMB3,000,000,000 (the “Fourth Panda Bonds”) issued by the Company to certain institutional investors in July 2018 pursuant to the offering announcement dated 16 July 2018, bearing interest at rates of 4.45% and 4.72% per annum. The Fourth Panda Bonds are due for repayment on 20 July 2023 and 20 July 2025. Two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company; and
- (xi) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the “Fifth Panda Bonds”) issued by the Company to certain institutional investors in January 2019 pursuant to the offering announcement dated 11 January 2019, bearing interest at rates of 3.95% and 4.49% per annum. The Fifth Panda Bonds are due for repayment on 11 January 2026 and 11 January 2029. For the bonds that due in 2026, two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company.

The corporate bonds at 31 December 2019 will be due for repayment on the aforementioned maturity dates unless being redeemed prior to their maturity pursuant to the terms thereof and of the indenture. In addition, the Second US\$ Bonds, the Third Panda Bonds, the Fourth Panda Bonds and the Fifth Panda Bonds include covenants imposing specific performance obligations on BEHL, among which any one of the following events would constitute events of default:

- (i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;
- (ii) if BEHL does not or ceases to supervise the Company;
- (iii) if BEHL is not or ceases to be, directly or indirectly, the single largest shareholder of the Company; and/or
- (iv) if the nominees of BEHL cease to comprise the majority of the members of the Company’s board of directors.

Based on the best belief and knowledge of the Company’s directors, none of the above events took place during the year and as at the date of approval of these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

38. NOTES PAYABLE

Notes payable of the Group as at 31 December 2019 and 2018 comprised:

- (i) a corporate note issued on 8 November 2013 with a principal amount of RMB2,000,000,000 (the “RMB Note”) which is unsecured and wholly repayable in the third to fifth years, inclusive, from the end of the reporting period. The note payable is guaranteed by the Company, bears interest at a rate of 6.15% per annum and is due for repayment on 14 November 2022 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement; and
- (ii) a corporate note issued on 8 May 2015 with a principal amount of HK\$700,000,000 (the “HK\$ Note”) which is unsecured and bears interest at a rate of 3.9% per annum. The note payable is guaranteed by the Company and due for repayment on 15 May 2020 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement.

The notes payable include covenants imposing specific performance obligations on BEHL, among which any one of the following events would constitute events of default:

- (i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;
- (ii) if BEHL does not or ceases to supervise the Company;
- (iii) if BEHL is not or ceases to be, directly or indirectly, the single largest shareholder of the Company;
- (iv) if the nominees of BEHL cease to comprise the majority of the members of the Company’s board of directors; and/or
- (v) if BEHL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality.

Based on the best belief and knowledge of the Company’s directors, none of the above events took place during the year and as at the date of approval of these financial statements.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

39. FINANCE LEASE PAYABLES

The Group leased certain equipment for its sewage treatment service business under four finance lease arrangements in 2018. The leases were classified as finance leases prior to HKFRS 16 becoming effective on 1 January 2019 and had remaining lease terms ranging from four to eleven years as at 31 December 2018.

As at 31 December 2018, the total future minimum lease payments under the finance leases and its present values were as follows:

	Minimum lease payments <i>HK\$'000</i>	Present value of minimum lease payments <i>HK\$'000</i>
Amounts repayable:		
Within one year or on demand	107,842	89,714
In the second year	78,362	65,132
In the third to fifth years, inclusive	207,485	185,695
Over five years	67,209	60,591
Total minimum finance lease payments	460,898	401,132
Future finance charges	(59,766)	
Total net finance lease payables	401,132	
Portion classified as current liabilities	(89,714)	
Non-current portion	311,418	

One of the finance leases with a carrying amount of HK\$30,507,000 as at 31 December 2018 included an on demand clause and therefore had been classified as a current liability accordingly. For the purpose of the above analysis, the finance lease is included within current finance lease payables and analysed into finance lease payables on demand.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

39. FINANCE LEASE PAYABLES *(Continued)*

As at 31 December 2018, the amounts payable based on the maturity terms of the loans are analysed as follows:

	Minimum lease payments <i>HK\$'000</i>	Present value of minimum lease payments <i>HK\$'000</i>
Amounts repayable:		
Within one year	83,915	67,419
In the second year	87,933	73,738
In the third to fifth years, inclusive	221,841	199,384
Over five years	67,209	60,591
Total minimum finance lease payments	460,898	401,132

Details of the carrying amounts of the assets under finance leases as at 31 December 2018 are set out in notes 14 and 18 to the financial statements.

40. PROVISION FOR MAJOR OVERHAULS

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



NOTES TO FINANCIAL STATEMENTS

31 December 2019

40. PROVISION FOR MAJOR OVERHAULS *(Continued)*

The movements in the provision for major overhauls of the Facilities during the year are as follows:

	Notes	2019 HK\$'000	2018 HK\$'000
At 1 January		210,949	207,426
Arising from acquisition	47	3,671	37,423
Provision for the year	7	175,178	139,100
Increase in discounted amounts arising from the passage of time	8	21,016	17,054
Amount utilised during the year		(164,862)	(175,097)
Disposal of subsidiaries	48	(826)	(3,369)
Deregistration of subsidiaries		–	(2,367)
Exchange realignment		(2,564)	(9,221)
At 31 December		242,562	210,949

41. DEFERRED INCOME

Deferred income of the Group mainly represented government subsidies received in respect of the Group's construction of sewage treatment and water distribution facilities in the PRC and receipt in advance of certain guarantee receipts of sewage water treatment related to the transfer of financial assets.

These government subsidies are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

42. DEFERRED TAX

Net deferred tax assets/(liabilities) recognised in the consolidated statement of financial position are as follows:

	2019 HK\$'000	2018 HK\$'000
Deferred tax assets	347,683	277,075
Deferred tax liabilities	(3,480,180)	(2,543,849)
	(3,132,497)	(2,266,774)

NOTES TO FINANCIAL STATEMENTS

31 December 2019

42. DEFERRED TAX *(Continued)*

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

	Notes	Attributable to						Net deferred tax assets/(liabilities) HK\$'000
		Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Impairment provision HK\$'000	Provision for major overhauls HK\$'000	Temporary differences related to service concession arrangements HK\$'000	Revaluation of properties HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	
At 1 January 2018		(395,541)	20,528	70,881	(1,520,115)	(9,800)	2,370	(1,831,677)
Acquisition of subsidiaries	47	115,770	–	–	–	–	–	115,770
Disposal of subsidiaries	48	317	–	19,933	–	–	–	20,250
Deregistration of subsidiaries		4,069	–	–	–	–	–	4,069
Net deferred tax credited/(charged) to profit or loss	11	10,155	(13,372)	1,464	(709,683)	–	–	(711,436)
Exchange realignment		11,769	(294)	(2,973)	127,442	403	(97)	136,250
At 31 December 2018 and 1 January 2019		(253,461)	6,862	89,305	(2,102,356)	(9,397)	2,273	(2,266,774)
Acquisition of subsidiaries	47	(71,725)	–	–	–	–	–	(71,725)
Disposal of subsidiaries	48	–	–	(207)	4,301	–	–	4,094
Deregistration of subsidiaries		185	–	–	–	–	–	185
Net deferred tax credited/(charged) to profit or loss	11	(4,324)	20,306	1,095	(862,062)	–	–	(844,985)
Exchange realignment		4,036	(346)	(2,015)	44,940	148	(55)	46,708
At 31 December 2019		(325,289)	26,822	88,178	(2,915,177)	(9,249)	2,218	(3,132,497)

Notes:

- (a) At 31 December 2019, deferred tax assets have not been recognised in respect of unused tax losses of HK\$501,773,000 (2018: HK\$346,144,000) as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, unrecognised tax losses of HK\$24,627,000 (2018: HK\$14,308,000) will expire in one to five years.
- (b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors of the Company, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$5,449,441,000 (2018: HK\$4,611,810,000) as at 31 December 2019.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

43. TRADE PAYABLES

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

	2019 HK\$'000	2018 HK\$'000
Within 3 months	12,528,591	7,734,850
4 to 6 months	3,251,065	2,369,676
7 months to 1 year	3,568,579	3,150,924
1 to 2 years	3,970,541	2,569,605
2 to 3 years	2,046,778	916,981
Over 3 years	1,401,058	974,504
Balance with extended credit period	126,378	156,105
	26,892,990	17,872,645

The trade payables are non-interest-bearing and apart from certain trade payables relating to construction services for comprehensive renovation projects which are due for payments upon settlements of progress billings by the relevant contract customers, the other amounts are normally settled on 60-day terms.

The Group's trade payables as at 31 December 2019 and 2018 included, inter alia, the following:

An amount of HK\$3,405,000 (2018: HK\$5,229,000) due to an associate of the Group, arising from the construction of certain sewage treatment facilities carried out in the ordinary course of business of the Group. No construction service was provided and no amount was charged during the years ended 31 December 2019 and 2018.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

44. OTHER PAYABLES AND ACCRUALS

	Notes	2019 HK\$'000	2018 HK\$'000
Accruals		1,276,167	1,157,784
Other liabilities	(a)	3,786,316	3,839,479
Contract liabilities	(b)	1,095,259	633,670
Due to subcontractors	(c)	933,742	1,072,231
Due to joint ventures	20(e)	1,610,261	1,318,709
Due to associates	21(b)	62,000	432,491
Due to related parties	(d)	583,974	699,339
Other taxes payables	45	665,355	327,226
		10,013,074	9,480,929
Portion classified as current liabilities		(8,972,912)	(8,885,441)
Non-current portion		1,040,162	595,488

Notes:

- (a) The Group's other liabilities as at 31 December 2019 and 2018 included, inter alia, the following:
- (i) outstanding considerations in an aggregate amount of HK\$795,154,000 (2018: HK\$950,376,000) payable to various governmental authorities in Mainland China for the construction or transfer of sewage treatment and water distribution facilities to the Group under the BOT or TOT arrangements; and
 - (ii) outstanding considerations in an aggregate amount of HK\$371,654,000 and nil (2018: HK\$706,262,000 and HK\$279,011,000) payable to various independent third parties and an associate, respectively, for the acquisition of subsidiaries of HK\$235,169,000 (2018: HK\$279,011,000), was attributable to the acquisition completed during the year.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

44. OTHER PAYABLES AND ACCRUALS *(Continued)*

Notes: (Continued)

(b) Contract liabilities as at 31 December 2019 and 2018 are as follows:

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Construction services	1,001,153	556,863	574,645
Others	94,106	76,807	–
Total contract liabilities	1,095,259	633,670	574,645

The increase in contract liabilities in 2019 and 2018 was mainly due to the increase in short-term advances received from customers in relation to the provision of construction, technical and consultancy services at the end of the year.

- (c) The amounts due to subcontractors of the Group as at 31 December 2019 included refunds from certain subcontractors of advances made by the Group for certain construction services for comprehensive renovation projects in an aggregate amount of HK\$354,461,000 (2018: HK\$360,126,000), as further detailed in note 28 to the financial statements.
- (d) Included in the amounts due to related parties of the Group as at 31 December 2019 was an advance from a related party of SGD12,715,000 (equivalent to HK\$73,618,000) (2018: SGD29,684,000 (equivalent to HK\$170,534,000)). The amount is unsecured, bears interest at a fixed rate of 2.5% per annum and is repayable by quarterly instalments. Interest expense of HK\$2,199,000 (2018: HK\$4,366,000) was recognised in profit or loss during the year ended 31 December 2019.
- (e) Other payables are non-interest-bearing and have an average credit term of three months.

45. OTHER TAXES PAYABLES

	2019 HK\$'000	2018 HK\$'000
Business tax	15,431	7,595
Value-added taxes	506,802	229,175
Others	143,122	90,456
	665,355	327,226

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

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

	2019	2018
Percentage of equity interest held by non-controlling interests:		
BCEG Environmental and its subsidiaries ("BCEG Group")	40%	40%
	2019 HK\$'000	2018 HK\$'000
Profit for the year allocated to non-controlling interests:		
BCEG Group	84,893	66,053
Accumulated balances of non-controlling interests at the reporting date:		
BCEG Group	711,454	687,838



NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

(Continued)

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

	BCEG Group	
	2019	2018
	HK\$'000	HK\$'000
Revenue	567,538	447,670
Interest income	9,808	26,299
Total expenses	(63,493)	(80,604)
Profit for the year	212,234	165,133
Total comprehensive income for the year	152,218	262,561
Current assets	1,354,056	1,281,801
Non-current assets	2,766,126	2,944,354
Current liabilities	(1,066,829)	(1,301,784)
Non-current liabilities	(877,173)	(882,315)
Net cash flows used from/(used in):		
Operating activities	240,623	(40,684)
Investing activities	(22,105)	(13,463)
Financing activities	(152,972)	(16,223)
Net increase/(decrease) in cash and cash equivalents	65,546	(70,370)

NOTES TO FINANCIAL STATEMENTS

31 December 2019

47. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year ended 31 December 2019 as at their respective dates of acquisition are as follows:

			2019	
	Note	Hong Kong HK\$'000	Others HK\$'000	Total HK\$'000
Property, plant and equipment		11,393	235,471	246,864
Operating concessions		60,678	377,332	438,010
Right-of-use assets		–	13,729	13,729
Amounts due from contract customers	(c)	–	2,786,063	2,786,063
Receivables under service concession arrangements	(c)	–	1,027,844	1,027,844
Inventories		–	3,105	3,105
Trade receivables	(c)	9,746	10,985	20,731
Prepayments, deposits and other receivables	(c)	747	86,833	87,580
Cash and cash equivalents		85,430	60,020	145,450
Trade payables		(539)	(783,426)	(783,965)
Other payables and accruals		(4,649)	(1,040,081)	(1,044,730)
Provision for major overhauls		–	(3,671)	(3,671)
Income tax payables		(9,219)	(33,848)	(43,067)
Bank and other borrowings		–	(712,233)	(712,233)
Deferred income		–	(3,580)	(3,580)
Deferred tax liabilities		(10,068)	(61,657)	(71,725)
Total identifiable net assets at fair value		143,519	1,962,886	2,106,405
Non-controlling interests		(21,528)	(115,381)	(136,909)
		121,991	1,847,505	1,969,496
Goodwill on acquisition		171,891	139,005	310,896
Gain on bargain purchase		–	(78,275)	(78,275)
		293,882	1,908,235	2,202,117



NOTES TO FINANCIAL STATEMENTS

31 December 2019

47. BUSINESS COMBINATIONS *(Continued)*

	Hong Kong <i>HK\$'000</i>	2019 Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Satisfied by:			
Cash	293,882	1,104,394	1,398,276
Reclassified from investments in joint ventures	–	689,672	689,672
Exchange of subsidiaries	–	114,169	114,169
	293,882	1,908,235	2,202,117
Revenue for the year since acquisition [#]	–	266,667	266,667
Profit for the year since acquisition	–	81,854	81,854

[#] *Revenue for the year since acquisition comprises revenue, interest income and other income and gains, net.*

NOTES TO FINANCIAL STATEMENTS

31 December 2019

47. BUSINESS COMBINATIONS *(Continued)*

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year ended 31 December 2018 as at their respective dates of acquisition are as follows:

	Trility HK\$'000	2018 Others HK\$'000	Total HK\$'000
Property, plant and equipment	109,193	203,324	312,517
Operating concessions	135,441	–	135,441
Other intangible assets	–	1,658	1,658
Investments in joint ventures	168,023	–	168,023
Amounts due from contract customers	–	3,917,821	3,917,821
Receivables under service concession arrangements	766,184	–	766,184
Deferred tax assets	115,770	–	115,770
Inventories	24,530	13,250	37,780
Trade receivables	182,778	9,168	191,946
Prepayments, deposits and other receivables	12,475	88,309	100,784
Cash and cash equivalents	202,679	21,749	224,428
Trade payables	(16,813)	(463,178)	(479,991)
Other payables and accruals	(267,431)	(1,831,656)	(2,099,087)
Provision for major overhauls	(37,423)	–	(37,423)
Income tax payables	(364)	(123,540)	(123,904)
Bank and other borrowings	(483,492)	(1,104,762)	(1,588,254)
Deferred income	–	(794)	(794)
Total identifiable net assets at fair value	911,550	731,349	1,642,899
Non-controlling interests	–	(63,432)	(63,432)
	911,550	667,917	1,579,467
Goodwill on acquisition	302,895	342,484	645,379
Gain on bargain purchase	–	(115,463)	(115,463)
	1,214,445	894,938	2,109,383



NOTES TO FINANCIAL STATEMENTS

31 December 2019

47. BUSINESS COMBINATIONS *(Continued)*

	Trility HK\$'000	2018 Others HK\$'000	Total HK\$'000
Satisfied by:			
Cash	1,214,445	362,345	1,576,790
Reclassified from an investment in a joint venture	–	532,593	532,593
	1,214,445	894,938	2,109,383
Revenue for the year since acquisition [#]	543,620	1,603,115	2,146,735
Profit for the year since acquisition	24,569	166,212	190,781

[#] Revenue for the year since acquisition comprises revenue, interest income and other income and gains, net.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2019 HK\$'000	2018 HK\$'000
Cash consideration	(1,398,276)	(1,576,790)
Cash and cash equivalents acquired	145,450	224,428
Amortised costs of outstanding cash consideration at end of year	238,878	279,011
Investment deposits paid in prior year	83,276	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(930,672)	(1,073,351)

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK\$5,965,893,000 (2018: HK\$5,206,058,000) and the Group's revenue would have been HK\$28,558,848,000 (2018: HK\$25,149,671,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

47. BUSINESS COMBINATIONS *(Continued)*

Notes:

- (a) Business combinations during the year ended 31 December 2019 included, inter alia, the following material transactions:
- (i) in January 2019, the Group completed the acquisition of the 100% equity interest in a company which is engaged in the provision of construction services in Inner Mongolia, the PRC, at an aggregate cash consideration of HK\$434,964,000 from a joint venture. The Group had gain on bargain purchase of HK\$78,275,000 for the year ended 31 December 2019 resulted from strategic cooperation with the joint venture partner;
 - (ii) in January 2019, the Group completed the acquisition of the 90% equity interest in a company which is engaged in the provision of water supply services in Hunan Province, the PRC, at an aggregate cash consideration of HK\$342,124,000; and
 - (iii) in December 2019, the Group completed the acquisition of the 85% equity interest in two Hong Kong companies which are engaged in the provision of marine refuse cleansing services and marine oil pollution cleaning services in Hong Kong, at a total cash consideration of HK\$293,882,000 from independent third parties. As part of the equity transfer agreement, the aggregate cash consideration would be reduced in the years ending 30 September 2020 and 2022 if the financial results are less than certain specified amounts. No contingent assets were recognised as the forecasted results were close to the specified amount.

The purpose of the above acquisitions is to expand the operations of the Group in the respective fields.

The goodwill arisen on the above acquisitions is attributable to the benefits of synergies and expected business growth as a result of future market development.

- (b) Business combinations during the year ended 31 December 2018 included, inter alia, the following material transactions:
- (i) in March 2018, the Group completed the acquisition of the 99.5% equity interest in a company and its subsidiaries which are engaged in the provision for construction services in Inner Mongolia, the PRC, at an aggregate cash consideration of HK\$83,334,000 from a joint venture;
 - (ii) in April 2018, the Group completed the acquisition of the 100% equity interest in Trility and its subsidiaries which are engaged in the provision of sewage and reclaimed water treatment and seawater desalination services, water distribution services, construction services and the sale of goods in Australia and New Zealand, at a cash consideration of HK\$1,214,445,000; and
 - (iii) in June 2018, the Group completed the acquisition of the 62% equity interest in a company which is engaged in waste treatment business in Gansu Province, the PRC, at a cash consideration of HK\$279,011,000 from an associate.

The purpose of the above acquisitions were to expand the operations of the Group in the respective fields.

The goodwill arisen on the above acquisitions is attributable to the benefits of synergies and expected business growth as a result of future market development.

- (c) The fair values of amounts due from contract customers, receivables under service concession arrangements, trade receivables, deposits and other receivables as at the respective dates of acquisitions during the year ended 31 December 2019 amounted to HK\$2,786,063,000, HK\$1,027,844,000, HK\$20,731,000 and HK\$80,876,000, respectively.

The gross contractual amounts of amounts due from contract customers, receivables under service concession arrangements, trade receivables, deposits and other receivables were HK\$2,786,063,000, HK\$1,027,844,000, HK\$20,731,000 and HK\$80,876,000, respectively, of which none of them are expected to be uncollectible.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

48. DISPOSAL OF SUBSIDIARIES

	<i>Note</i>	2019 HK\$'000 <i>(note (a))</i>	2018 <i>HK\$'000</i> <i>(note (b))</i>
Net assets disposed of:			
Property, plant and equipment		559	53,498
Goodwill		7,665	64,625
Operating concessions		206	354,978
Amounts due from contract customers		2,373	231,311
Receivables under service concession arrangements		190,246	3,628,258
Trade receivables		731	47,605
Deferred tax assets		–	2,753
Inventories		82	1,979
Prepayments, deposits and other receivables		–	162,395
Cash and cash equivalents		453	58,601
Trade payables		(43,911)	(267,220)
Other payables and accruals		(6,253)	(2,280,370)
Income tax payables		(494)	(11,594)
Bank and other borrowings		(47,532)	(936,416)
Provision for major overhauls		(826)	(3,369)
Deferred tax liabilities		(4,094)	(23,003)
Non-controlling interests		–	(91,466)
		99,205	992,565
Exchange fluctuation reserve realised		(372)	46
Gain/(loss) on disposal of subsidiaries, net		33,126	(67,159)
		131,959	925,452
Satisfied by:			
Cash		1,622	878,458
Reclassified to equity investments designated at fair value through other comprehensive income	<i>(a)(ii)</i>	1,238	46,994
Reclassified to investment in an associate	<i>(a)(ii)</i>	14,930	–
Exchange of subsidiaries	<i>(a)(ii)</i>	114,169	–
		131,959	925,452

NOTES TO FINANCIAL STATEMENTS

31 December 2019

48. DISPOSAL OF SUBSIDIARIES *(Continued)*

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

	2019 HK\$'000	2018 HK\$'000
Cash consideration	1,622	878,458
Cash and bank balances disposed of	(453)	(58,601)
Consideration receivable as at year end	–	(828,458)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	1,169	(8,601)

Notes:

- (a) The Group completed the following disposal of subsidiaries during the year ended 31 December 2019:
- (i) in June 2019, the Group disposed of a 100% equity interest in a subsidiary engaging in the sewage treatment services in the PRC, for a cash consideration of HK\$1,622,000; and
 - (ii) in September 2019, the Group disposed of 66.78% and 98.55% of two indirect-wholly-owned subsidiaries in exchange of 100% equity interests of a group of entities from a joint venture. All the entities are engaged in the provision of sewage treatment services in the PRC. The remaining interests in the then subsidiaries are reclassified to an equity investment designated at fair value through other comprehensive income and investment in an associate.
- (b) The Group completed the following disposal of subsidiaries during the year ended 31 December 2018:
- (i) in January 2018, the Group disposed of a 99% equity interest in a subsidiary engaging in the provision of construction services in the PRC, for a cash consideration of HK\$50,000,000 to a joint venture;
 - (ii) in December 2018, the Group disposed of a 85% equity interest in a subsidiary engaging in sewage treatment operations located in the PRC, for a cash consideration of HK\$844,814,000 to a joint venture. The remaining interest in the company is reclassified to an equity investment designated at fair value through other comprehensive income; and
 - (iii) in December 2018, the Group disposed of a 100% equity interest in a subsidiary providing consultancy services in the PRC, for a cash consideration of HK\$30,638,000 to an associate.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

49. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$147,534,000 and HK\$58,409,000, respectively, in respect of lease arrangements for various assets (2018: Nil).

(b) Changes in liabilities arising from financing activities

	Bank and other borrowings <i>HK\$'000</i>	Finance lease payables/ lease liabilities <i>HK\$'000</i>	Corporate bonds <i>HK\$'000</i>	Notes payable <i>HK\$'000</i>
At 31 December 2018	32,073,399	401,132	20,574,406	2,978,957
Effect of adoption of HKFRS 16	–	161,172	–	–
At 1 January 2019 (restated)	32,073,399	562,304	20,574,406	2,978,957
Changes from financing cash flows	6,884,698	(113,526)	(1,784,010)	–
New leases	–	58,409	–	–
Interest expense	–	25,170	27,719	1,686
Increase arising from acquisition of subsidiaries	712,233	–	–	–
Decrease arising from disposal of subsidiaries	(47,532)	–	–	–
Foreign exchange movement	(246,571)	(9,014)	(253,211)	(35,874)
At 31 December 2019	39,376,227	523,343	18,564,904	2,944,769

NOTES TO FINANCIAL STATEMENTS

31 December 2019

49. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) Changes in liabilities arising from financing activities *(Continued)*

	Bank and other borrowings <i>HK\$'000</i>	Finance lease payables <i>HK\$'000</i>	Corporate bonds <i>HK\$'000</i>	Notes payable <i>HK\$'000</i>
At 1 January 2018	26,132,940	498,210	14,245,848	3,074,932
Changes from financing cash flows	6,058,989	(96,078)	6,719,976	–
New finance lease	–	16,190	–	–
Interest expense	–	–	23,667	1,734
Increase arising from acquisition of subsidiaries	1,588,254	–	–	–
Decrease arising from disposal of subsidiaries	(936,416)	–	–	–
Foreign exchange movement	(770,368)	(17,190)	(415,085)	(97,709)
At 31 December 2018	32,073,399	401,132	20,574,406	2,978,957

50. CONTINGENT LIABILITIES

As at 31 December 2019, bank guarantees in favour of employers in lieu of deposits for project bidding and project performance of HK\$669,696,000 (2018: HK\$1,099,570,000) were outstanding and corporate guarantees of HK\$3,085,661,000 (2018: HK\$3,071,511,000) were given to banks in connection with facilities granted to certain associates, joint ventures and independent third parties.

As at 31 December 2018, a corporate guarantee at a maximum amount of HK\$93,113,000 (MYR49,162,000) was given by a subsidiary of the Group to the government of Malaysia in respect of the specific performance of the duties by the Group under an arrangement on the design, construction and operation of an underground sewage water plant located in Malaysia (the “Malaysia Project”). The corporate guarantee remained in force and effective until 29 June 2019 and expired without renewal. Further details of the Malaysia Project are set out in the Company’s announcement dated 4 July 2011 and 3 November 2011.

Save as disclosed above, as at 31 December 2019, the Group did not have any significant contingent liabilities.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

51. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank and other borrowings are included in note 36 to the financial statements. In addition, the Group's bank guarantee facility is secured by pledged time deposits of the Group as detailed in note 30(a)(ii).

52. OPERATING LEASE ARRANGEMENTS

As lessee as at 31 December 2018

The Group leased a piece of land and certain office properties under operating lease arrangements with leases negotiated for terms ranging from 1 month to 50 years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK\$'000
Within one year	23,888
In the second to fifth years, inclusive	36,051
After five years	113,486
	173,425

53. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 52 above, the Group had the following capital commitments at the end of the reporting period:

	2019 HK\$'000	2018 HK\$'000
Contracted, but not provided for:		
New service concession arrangements on:		
TOT basis	520,585	544,417
BOT basis	8,953,092	6,458,483
Build-Own-Operate basis	215,471	214,840
Capital contribution to joint ventures	10,670,925	11,450,776
	20,360,073	18,668,516

NOTES TO FINANCIAL STATEMENTS

31 December 2019

53. CAPITAL COMMITMENTS *(Continued)*

In addition, the Group's share of the joint ventures' own capital commitments, which are not included in the above, is as follows:

	2019 HK\$'000	2018 HK\$'000
Contracted, but not provided for	1,037,868	554,854

Save as disclosed above, at 31 December 2019, the Group did not have any significant commitments.

54. RELATED PARTY TRANSACTIONS

(a) The Group had engaged a related company of the Group to provide sewage treatment engineering services for the Malaysia Project with service fees of HK\$26,673,000 (MYR14,107,000) (2018: HK\$148,840,000 (MYR76,609,000)), which were charged at the published prices and conditions offered by the related company to its major customers.

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

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the year, the Group had transactions with the Other SOEs including, but not limited to, the sale of piped water, provision of sewage treatment and construction services, bank deposits and borrowings, and utilities consumptions. The directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies are not carried out on non-market terms and do not depend on whether or not the customers are the Other SOEs. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions is material related party transaction that would require separate disclosure.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

54. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Compensation of key management personnel of the Group

	2019 HK\$'000	2018 HK\$'000
Short term employee benefits	20,480	21,489
Equity-settled share option expense	–	1,525
Equity-settled share award expense	8,933	–
Pension scheme contributions	297	36
Total compensation paid to key management personnel	29,710	23,050

Further details of directors' emoluments are included in note 9 to the financial statements.

- (d) On 30 October 2017, the Company and Beijing Enterprises Group Finance Co. Ltd. ("BG Finance") entered into a 2018 deposit services master agreement (the "2018 Deposit Agreement") whereby the Company and BG Finance continue to carry out the transactions of a similar nature from time to time under the 2018 Deposit Agreement for three years from 1 January 2018 to 31 December 2020, with the terms and conditions substantially the same as those under the deposit services master agreement and its supplemental agreement signed by both parties in 2015. BG Finance is a non-wholly-owned subsidiary of BEGCL and an associate of BEHL and acts as a platform for members of BEGCL and BEHL for the provision of intra-group facilities through financial products including deposit-taking, money-lending and custodian services. The daily aggregate of deposits placed by the Group with BG Finance (including any interest accrued thereon) during the terms of the 2018 Deposit Agreement shall not exceed HK\$2,900,000,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

54. RELATED PARTY TRANSACTIONS *(Continued)*

(d) *(Continued)*

The deposits placed by the Group with BG Finance as at the end of the year amounted to HK\$2,756,679,000 (2018: HK\$2,737,338,000). The related interest income recognised in profit or loss during the year was not significant to the Group.

The above related party transaction also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

Loans borrowed from BG Finance by the Group as at the end of the reporting period amounted to HK\$1,089,858,000 (2018: HK\$551,598,000) and bear interest at floating rates ranging from 4.66% to 5.15% per annum (2018: from 4.35% to 4.75% per annum). The related interest expenses recognised in profit or loss during the year were not significant to the Group.

- (e)** The Group had provided management services to joint ventures of the Group for HK\$19,204,000 (RMB16,900,000) (2018: HK\$35,396,000 (RMB29,732,000)) and the fee was charged based on terms mutually agreed between the Group and the joint ventures during the year ended 31 December 2019.
- (f)** The Group had provided technical and consultancy services for comprehensive renovation projects located in Beijing and Baotou City in the PRC to joint ventures of the Group for HK\$8,290,000 (RMB7,295,000) (2018: HK\$100,020,000 (RMB84,017,000)) and nil (2018: HK\$52,186,000 (RMB43,836,000)) during the year ended 31 December 2019, respectively, and the fees were charged based on terms mutually agreed between the Group and the joint ventures during the year ended 31 December 2019.
- (g)** The Group had leased certain office premises to an associate of the Group for HK\$10,838,000 (RMB9,538,000) (2018: HK\$12,753,000 (RMB10,712,000)) which was charged based on terms mutually agreed between the Group and the associate.
- (h)** The Group had provided construction services for comprehensive renovation projects located in Baotou City, Yixing City, Beijing and Fuzhou City in the PRC to joint ventures of the Group for an aggregate amount of HK\$689,522,000 (RMB606,779,000) (2018: HK\$433,926,000 (RMB364,498,000)) during the year ended 31 December 2019 and the fees were charged based on terms mutually agreed between the Group and the joint ventures during the year ended 31 December 2019.

Save as disclosed above and the transactions and balances detailed elsewhere in the financial statements, the Group had no other material transactions and outstanding balances with related parties during the years ended 31 December 2019 and 2018.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

55. FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

Assets measured at fair value:

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
At 31 December 2019				
Investment properties	–	–	806,785	806,785
Financial assets at fair value through profit or loss	–	–	80,258	80,258
Equity investments designated at fair value through other comprehensive income	921,048	62,279	421,052	1,404,379
Total	921,048	62,279	1,308,095	2,291,422
At 31 December 2018				
Investment properties	–	–	1,052,492	1,052,492
Financial assets at fair value through profit or loss	–	–	97,854	97,854
Equity investments designated at fair value through other comprehensive income	908,331	62,279	392,069	1,362,679
Total	908,331	62,279	1,542,415	2,513,025

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 fair value measurement (2018: Nil).

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

56. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, corporate bonds, notes payable, finance lease payables, cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, trade payables, other payables and amounts due from/to related parties which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors of the Company review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations.

Banks and other borrowings, corporate bonds, notes payable, finance lease payables, and cash and bank balances are stated at amortised cost and are not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

At 31 December 2019, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings, lease liabilities (2018: finance lease payables), and cash and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax for the year ended 31 December 2019 by approximately HK\$232,350,000 (2018: HK\$174,090,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.



NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China, the Group's statement of financial position can be affected significantly by movements in the RMB/HK\$ exchange rate.

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

	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity HK\$'000
31 December 2019		
If Hong Kong dollar weakens against RMB by 5%	446,449	2,294,365
If Hong Kong dollar strengthens against RMB by 5%	(446,449)	(2,294,365)
31 December 2018		
If Hong Kong dollar weakens against RMB by 5%	386,614	2,296,050
If Hong Kong dollar strengthens against RMB by 5%	(386,614)	(2,296,050)

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The main credit risk exposure to the Group arises from default or delinquency in principal payments of trade receivables, receivables under service concession arrangements and amounts due from contract customers. In respect of these receivables, the Group trades mainly with municipal governments in different provinces which do not have significant credit risk. In addition, these receivables are monitored on an ongoing basis. Therefore, in the opinion of the directors, the credit risk is not significant.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

Credit risk *(Continued)*

Maximum exposure and year-end staging

Management groups financial instruments on basis of shared credit risk characteristics, such as instrument type and credit risk ratings for the purpose of determining significant increase in credit risk and calculation of impairment. The gross carrying amount of each financial asset in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets as at 31 December 2019 and 2018.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or past due event;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation.

To manage credit risk arising from debtors and contract assets, the credit quality of the debtors is assessed, taking into account their financial position, historical settlement records, past experience and other factors. The Group applies the general approach to provide for ECLs prescribed by HKFRS 9. The determination of the ECLs has also incorporated forward-looking information.

The Group has established a policy to perform an assessment as at 31 December 2019 and 2018, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Group classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

- | | |
|---------|---|
| Stage 1 | When the financial assets are first recognised, the Group recognises an allowance based on 12 months' ECL. |
| Stage 2 | When the financial assets have shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs. |
| Stage 3 | The financial assets are considered credit-impaired. The Group records an allowance for the lifetime ECLs. |



NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

Credit risk *(Continued)*

Maximum exposure and year-end staging (Continued)

Management also makes periodic collective assessments for the financial assets as well as individual assessment on the recoverability of the financial assets based on historical settlement records, past experience and other factors. The Group classifies the financial assets into different stages by risk and continuously monitored their credit risk. Management believes that there is no material credit risk inherent in the Group's outstanding balances as at 31 December 2019 and 2018.

As at 31 December 2019 and 2018, all restricted cash and pledged deposits and cash and cash equivalents were deposited with creditworthy financial institutions without significant credit risk.

The Group does not provide any guarantees which would expose the Group or the Company to credit risk. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from the financial assets are set out in notes 18, 26, 27 and 28 to the financial statements.

Liquidity risk

In light of the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and the capital commitments of the Group of approximately HK\$21.4 billion (2018: HK\$19.2 billion) in aggregate (comprising the Group's capital commitments and the Group's share of the joint ventures' own capital commitments) as at 31 December 2019 as detailed in note 53 to the financial statements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, corporate bonds, notes payable and finance lease payables, as well as the strict control over its receivables due in day to day business. In the opinion of the directors of the Company, new bank borrowings will be obtained to finance certain of the new construction projects and service concession arrangements, and certain of the above-mentioned capital commitments are expected to be fulfilled by the Group after 2020. Accordingly, the Group expects to have adequate sources of funding to finance the Group and manage its liquidity position. Further details of which are set out in note 2 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

Liquidity risk *(Continued)*

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

	Within one year or on demand <i>HK\$'000</i>	In the second year <i>HK\$'000</i>	In the third to fifth years, inclusive <i>HK\$'000</i>	Beyond 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2019					
Bank and other borrowings	10,422,187	5,110,179	17,811,014	9,658,308	43,001,688
Corporate bonds	2,527,863	7,234,462	9,202,188	2,095,776	21,060,289
Notes payable	848,048	138,069	2,365,833	–	3,351,950
Lease liabilities	129,779	142,670	175,169	82,781	530,399
Trade payables	26,892,990	–	–	–	26,892,990
Other liabilities	5,982,277	410,625	–	–	6,392,902
Due to related parties	583,974	–	–	–	583,974
	47,387,118	13,036,005	29,554,204	11,836,865	101,814,192
31 December 2018					
Bank and other borrowings	5,443,906	7,295,419	16,520,446	5,639,056	34,898,827
Corporate bonds	5,140,163	2,182,847	15,107,400	820,965	23,251,375
Notes payable	167,477	849,495	2,542,800	–	3,559,772
Finance lease payables	107,842	78,362	207,485	67,209	460,898
Trade payables	17,872,645	–	–	–	17,872,645
Other liabilities	6,377,383	285,527	–	–	6,662,910
Due to related parties	699,339	–	–	–	699,339
	35,808,755	10,691,650	34,378,131	6,527,230	87,405,766



NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may issue new shares to increase capital or sell assets to reduce debt.

The Group monitors capital using the gearing ratio, which is calculated based on net debt and total equity. Net debt is calculated as total bank and other borrowings, corporate bonds, notes payable and lease liabilities (excluded those derived from operating leases) (2018: finance lease payables) less cash and cash equivalents. The gearing ratios at 31 December 2019 and 2018 were as follows:

	2019 HK\$'000	2018 HK\$'000
Net debt	49,105,324	43,090,247
Total equity	46,531,176	37,812,137
Gearing ratio	106%	114%

57. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the equity investments designated at fair value through other comprehensive income and a financial asset at fair value through profit or loss as disclosed in notes 23 and 22 to the financial statements, respectively, all financial assets and liabilities of the Group as at 31 December 2019 and 2018 were financial assets at amortised cost, and financial liabilities at amortised cost, respectively.

58. EVENT AFTER THE REPORTING PERIOD

As at the date of approval of these financial statements, the impact of the Novel Coronavirus ("COVID-19") outbreak to the macro-economic conditions as a whole are still uncertain, thus the financial impact on the Group could not be estimated. However, it is noted that construction works in several construction sites in China could only maintain limited operation or are forced to suspend in the first quarter of Year 2020 due to the outbreak of COVID-19. Certain construction sites currently start to resume normal operation. Pending on the development and spread of COVID-19 subsequent to the date of approval of these financial statements, further changes in economic and operating conditions arising thereof may have impact on the Group's financial results. The Group will pay close attention to the development of the COVID-19 and perform further assessment on its impact and take relevant measures.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

59. COMPARATIVE AMOUNTS

As further explained in note 3.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations. In addition, certain comparative amounts have been reclassified and re-presented to conform to the current year's presentation.

60. 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:

	2019 HK\$'000	2018 HK\$'000
ASSETS		
Non-current assets:		
Property, plant and equipment	1,211	1,929
Investments in subsidiaries	10,771,717	10,439,471
Investments in joint ventures	1,281,390	1,281,390
Investments in associates	441,500	441,500
Prepayments, deposits and other receivables	105,775	113,934
Equity investments designated at fair value through other comprehensive income	1,053,438	1,056,748
Total non-current assets	13,655,031	13,334,972
Current assets:		
Trade receivables	2,688	7,602
Prepayments, deposits and other receivables	30,766,499	26,179,131
Cash and cash equivalents	462,139	2,207,959
Total current assets	31,231,326	28,394,692
TOTAL ASSETS	44,886,357	41,729,664



NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

	2019 HK\$'000	2018 HK\$'000
EQUITY AND LIABILITIES		
Equity:		
Issued capital	1,002,120	941,299
Reserves <i>(note)</i>	7,387,282	5,551,688
TOTAL EQUITY	8,389,402	6,492,987
Non-current liabilities:		
Bank and other borrowings	9,212,077	14,260,356
Corporate bonds	12,191,932	11,593,471
Other payables and accruals	7,182,599	6,005,474
Deferred tax liabilities	12,011	–
Total non-current liabilities	28,598,619	31,859,301
Current liabilities:		
Trade payables	353	359
Other payables and accruals	1,025,793	826,139
Bank and other borrowings	5,413,142	498,042
Corporate bonds	1,459,048	2,052,836
Total current liabilities	7,898,336	3,377,376
TOTAL LIABILITIES	36,496,955	35,236,677
TOTAL EQUITY AND LIABILITIES	44,886,357	41,729,664

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

Note:

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

	Share premium account <i>HK\$'000</i>	Shares held under share award scheme <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i> <i>(a)</i>	Fair value reserve <i>HK\$'000</i>	Share option and share award reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2018	5,068,783	–	1,457,815	38,474	242,131	(2,570,741)	4,236,462
Loss for the year	–	–	–	–	–	(578,788)	(578,788)
Other comprehensive loss for the year:							
Changes in fair value of equity							
investments at fair value through							
other comprehensive income	–	–	–	(56,865)	–	–	(56,865)
Issue of shares	3,553,021	–	–	–	–	–	3,553,021
Transfer to contributed surplus	(8,617,313)	–	8,617,313	–	–	–	–
Shares repurchased and cancelled	(12,220)	–	–	–	–	–	(12,220)
Exercise of share options	7,729	–	–	–	(2,199)	–	5,530
Equity-settled share option arrangements	–	–	–	–	4,688	–	4,688
Final 2017 cash distributions paid	–	–	(705,944)	–	–	–	(705,944)
Interim 2018 cash distributions paid	–	–	(894,196)	–	–	–	(894,196)
At 31 December 2018 and 1 January 2019	–	–	8,474,988	(18,391)	244,620	(3,149,529)	5,551,688
Profit for the year	–	–	–	–	–	1,296,541	1,296,541
Other comprehensive loss for the year:							
Changes in fair value of equity							
investments at fair value through							
other comprehensive income	–	–	–	(3,620)	–	–	(3,620)
Issue of shares	2,507,284	–	–	–	–	–	2,507,284
Shares purchased for the share award scheme	–	(110,014)	–	–	–	–	(110,014)
Equity-settled shares award arrangements	–	–	–	–	27,244	–	27,244
Exercise of share options	29,899	–	–	–	(8,869)	–	21,030
Final 2018 cash distributions paid	–	–	(830,945)	–	–	–	(830,945)
Interim 2019 cash distributions paid	–	–	(1,071,926)	–	–	–	(1,071,926)
At 31 December 2019	2,537,183	(110,014)	6,572,117	(22,011)	262,995	(1,852,988)	7,387,282

(a) Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus account of the Company subject to the Company's Bye-laws, provided that the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

61. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2020.



FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2018, is set out below:

RESULTS

	Year ended 31 December				
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000
Revenue	13,502,957	17,354,833	21,192,372	24,596,857	28,192,464
Operating profit	3,370,543	4,269,210	4,237,109	5,864,681	6,619,711
Share of profits and losses of:					
Joint ventures	162,795	192,172	521,629	454,565	551,395
Associates	12,221	182,373	556,578	459,664	384,986
Profit before tax	3,545,559	4,643,755	5,315,316	6,778,910	7,556,092
Income tax expense	(777,766)	(970,773)	(874,772)	(1,548,890)	(1,713,503)
Profit for the year	2,767,793	3,672,982	4,440,544	5,230,020	5,842,589
ATTRIBUTABLE TO:					
Shareholders of the Company	2,455,370	3,227,013	3,717,227	4,471,265	4,925,718
Holders of perpetual capital instruments	–	56,570	240,291	246,012	234,830
Non-controlling interests	312,423	389,399	483,026	512,743	682,041
	2,767,793	3,672,982	4,440,544	5,230,020	5,842,589

FIVE-YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND TOTAL EQUITY

	Year ended 31 December				
	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Total assets	64,491,748	81,047,270	100,461,072	126,380,708	151,160,926
Total liabilities	(44,201,333)	(54,279,930)	(67,419,749)	(88,568,571)	(104,629,750)
NET ASSETS	20,290,415	26,767,340	33,041,323	37,812,137	46,531,176
Equity attributable to shareholders of the Company	16,183,833	16,501,142	20,784,723	25,489,537	30,548,450
Perpetual capital instruments	–	6,305,025	6,623,082	6,350,900	6,250,999
Non-controlling interests	4,106,582	3,961,173	5,633,518	5,971,700	9,731,727
TOTAL EQUITY	20,290,415	26,767,340	33,041,323	37,812,137	46,531,176



北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 371)