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## **CAPITAL ENVIRONMENT HOLDINGS LIMITED**

### **首創環境控股有限公司**

*(Incorporated in Cayman Islands with limited liability)*

**(Stock Code: 03989)**

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020**

The Board of Directors (the “Board”) of Capital Environment Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2020 as follows:

#### **CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

*For the year ended 31 December 2020*

	<i>Notes</i>	<b>2020</b> <i>RMB'000</i>	<b>2019</b> <i>RMB'000</i>
<b>REVENUE</b>	4	<b>7,646,659</b>	5,938,095
Cost of sales		<b>(5,712,322)</b>	(4,370,633)
Gross profit		<b>1,934,337</b>	1,567,462
Other income and gains	4	<b>160,393</b>	123,849
Administrative expenses		<b>(679,324)</b>	(638,698)
Impairment of other intangible assets		<b>(83,218)</b>	—
Other expenses		<b>(32,998)</b>	(29,185)
Finance costs	6	<b>(554,713)</b>	(435,805)
Share of profits and losses of:			
Joint ventures		<b>39,758</b>	40,919
Associates		<b>(6,948)</b>	5,484
<b>PROFIT BEFORE TAX</b>	5	<b>777,287</b>	634,026
Income tax expense	7	<b>(281,365)</b>	(208,131)
<b>PROFIT FOR THE YEAR</b>		<b>495,922</b>	425,895

	<i>Notes</i>	<b>2020</b> <b><i>RMB'000</i></b>	2019 <i>RMB'000</i>
Attributable to:			
Owners of the parent		<b>465,041</b>	302,749
Owners of the preference shareholders		<b>1,082</b>	—
Non-controlling interests		<b>29,799</b>	123,146
		<u><b>495,922</b></u>	<u>425,895</u>

**EARNINGS PER SHARE**  
**ATTRIBUTABLE TO ORDINARY**  
**EQUITY HOLDERS OF THE PARENT**

Basic	<i>9</i>	<u><b>RMB3.25 cents</b></u>	<u>RMB2.12 cents</u>
Diluted	<i>9</i>	<u><b>RMB3.25 cents</b></u>	<u>RMB2.12 cents</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended 31 December 2020*

	<b>2020</b>	2019
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
<b>PROFIT FOR THE YEAR</b>	<b><u>495,922</u></b>	<b><u>425,895</u></b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	(24,924)	(54,668)
Reclassification adjustments for gains included in the consolidated statement of profit or loss	16,865	27,335
Income tax effect	<u>(1,271)</u>	<u>7,653</u>
	<b>(9,330)</b>	<b>(19,680)</b>
Exchange differences:		
Exchange differences on translation of foreign operations	<u>278,435</u>	<u>41,577</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	<u>269,105</u>	<u>21,897</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investment designated at fair value through other comprehensive income:		
Changes in fair value	(519)	1,902
Exchange differences:		
Exchange differences on translation of the parent company	<u>(50,233)</u>	<u>(50,717)</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>(50,752)</u>	<u>(48,815)</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b><u>218,353</u></b>	<b><u>(26,918)</u></b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b><u>714,275</u></b>	<b><u>398,977</u></b>
Attributable to:		
Owners of the parent	682,031	264,331
Owners of the preference shareholders	1,082	—
Non-controlling interests	<u>31,162</u>	<u>134,646</u>
	<b><u>714,275</u></b>	<b><u>398,977</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

		31 December 2020	31 December 2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		2,604,229	2,272,692
Right-of-use assets		1,430,978	1,343,188
Goodwill		2,117,205	2,086,384
Other intangible assets		3,276,255	2,702,006
Investments in joint ventures		452,531	451,469
Investments in associates		97,573	104,521
Trade receivables	12	366,796	—
Equity investment designated at fair value through other comprehensive income		17,399	17,918
Deferred tax assets		15,448	14,602
Concession financial assets	10	4,455,330	1,818,652
Contract assets	11	3,105,749	3,207,936
Prepayments, other receivables and other assets		59,366	61,044
Pledged deposits		5,017	38,912
		<hr/>	<hr/>
Total non-current assets		18,003,876	14,119,324
<b>CURRENT ASSETS</b>			
Inventories		114,605	85,536
Concession financial assets	10	805,902	411,834
Contract assets	11	123,917	212,876
Assets classified as held for sale		3,901	9,675
Trade receivables	12	1,132,849	1,301,954
Prepayments, other receivables and other assets		1,013,101	866,621
Amounts due from associates		48,690	60,846
Tax recoverable		—	5,356
Pledged deposits		45,175	21,829
Time deposits		5,000	—
Cash and cash equivalents		2,762,052	1,540,029
		<hr/>	<hr/>
Total current assets		6,055,192	4,516,556

	<b>31 December</b>	31 December
	<b>2020</b>	2019
<i>Notes</i>	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
<b>CURRENT LIABILITIES</b>		
Trade payables	13 1,853,229	1,108,487
Other payables and accruals	529,748	455,409
Deferred income	8,143	8,758
Derivative financial instruments	24,679	20,134
Interest-bearing bank and other borrowings	14 3,860,172	1,221,633
Notes payable	15 1,950,197	—
Lease liabilities	64,651	57,748
Amount due to a related party	1,939	1,855
Tax payable	228,377	104,219
	<u>8,521,135</u>	<u>2,978,243</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>	<b><u>(2,465,943)</u></b>	<b><u>1,538,313</u></b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b><u>15,537,933</u></b>	<b><u>15,657,637</u></b>
<b>NON-CURRENT LIABILITIES</b>		
Deferred income	202,606	182,078
Interest-bearing bank and other borrowings	14 4,856,974	6,109,190
Lease liabilities	1,300,481	1,181,218
Notes payable	15 —	2,080,404
Corporate bonds	16 995,529	—
Derivative financial instruments	13,224	10,173
Deferred tax liabilities	725,606	629,782
Provisions	254,498	223,538
	<u>8,348,918</u>	<u>10,416,383</u>
Total non-current liabilities	<u>8,348,918</u>	<u>10,416,383</u>
Net assets	<u><u>7,189,015</u></u>	<u><u>5,241,254</u></u>
<b>EQUITY</b>		
Equity attributable to equity holders of the parent		
Issued capital	1,188,219	1,188,219
Other equity instruments	17 1,316,938	—
Reserves	3,117,487	2,434,374
	<u>5,622,644</u>	<u>3,622,593</u>
Non-controlling interests	<u>1,566,371</u>	<u>1,618,661</u>
Total equity	<u><u>7,189,015</u></u>	<u><u>5,241,254</u></u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 1. CORPORATE AND GROUP INFORMATION

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

The Company and its subsidiaries (the “Group”) are involved in the waste treatment and waste-to-energy business.

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

The Group’s net current liabilities were RMB2,465,943,000 as at 31 December 2020. The financial statements are still presented on the basis of going concern as the Group has undrawn borrowing facilities amounting to RMB2,158,428,000 as at 31 December 2020 and BCG Chinastar International Investment Limited (“BCG Chinastar”), a shareholder of the Company and a wholly-owned subsidiary of Beijing Capital Group Co., Ltd. (“Beijing Capital Group”), has committed to provide extension for its loan of NZ\$570,000,000 to the Group (see note 14) to support the Group’s going concern if necessary.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

- (a) *Conceptual Framework for Financial Reporting 2018* (the “Conceptual Framework”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any significant impact on the financial position and performance of the Group.
- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The Company entered into an interest rate swap contract with the Hongkong and Shanghai Banking Corporation (“HSBC”) during the year to hedge the interest rate risk of Hong Kong Interbank Offered Rate (“HIBOR”). The hedged item is a loan from HSBC with the principal amount of HK\$700 million, which bears interest at a floating interest rate of HIBOR+1.4% and with a maturity date of 20 November 2022. The hedge instrument is with the same nominal amount and the same maturity date, and it requires the Company to pay interest to HSBC at a fixed interest of 1.34%, while HSBC pays interest to the Company at a floating rate of HIBOR.

In the opinion of the directors, the alternative RFR may give rise to uncertainties to the hedge relationship above as there may be additional terms to be specifically negotiated in case HIBOR is translated into an alternative benchmark, and the uncertainties would be no longer present at the earlier of a new benchmark determined and the termination of the interest rate swap contract.

The Company has promptly taken active action in following up with the latest updates in the mechanism, and the hedge relationship is not expected to be broken easily as the loan contract and the interest rate swap contract were both entered into with HSBC.

The Company has applied the temporary reliefs to continue its existing interest rate hedging relationships.

- (d) Amendment HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendment did not have any impact on the financial position and performance of the Group as the Group did not receive any rent concessions arising as a direct consequence of the covid-19 pandemic during the year ended 31 December 2020.
- (e) Amendment to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any impact on the financial position and performance of the Group.

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

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

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

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

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

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

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

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

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

### 3. OPERATING SEGMENT INFORMATION

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

The Group has two reportable segments, being (a) waste treatment and waste-to-energy business in the People’s Republic of China (“PRC”) and (b) waste treatment and waste-to-energy business in New Zealand.

Year ended 31 December 2020	Waste treatment and waste-to- energy business in the PRC <i>RMB’000</i>	Waste treatment and waste-to- energy business in New Zealand <i>RMB’000</i>	Total <i>RMB’000</i>
<b>Segment revenue:</b>			
Revenue from external customers	5,387,406	2,259,253	<u>7,646,659</u>
Revenue from operations			<u><u>7,646,659</u></u>
<b>Segment results</b>	644,464	132,823	777,287
<b>Other segment information:</b>			
Share of profits of joint ventures	—	39,758	39,758
Share of losses of associates	(6,948)	—	(6,948)
Impairment losses recognised in the statement of profit or loss	88,573	6,320	94,893
Impairment losses reversed in the statement of profit or loss	(420)	—	(420)
Depreciation and amortisation	121,504	332,804	454,308
Investments in joint ventures	—	452,531	452,531
Investments in associates	97,753	—	97,753
Capital expenditure ( <i>note</i> )	272,842	337,894	610,736
<b>31 December 2020</b>			
<b>Segment assets</b>	16,467,691	7,591,377	24,059,068
<b>Segment liabilities</b>	11,694,493	5,175,560	16,870,053

Year ended 31 December 2019	Waste treatment and waste-to- energy business in the PRC <i>RMB'000</i>	Waste treatment and waste-to- energy business in New Zealand <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue:</b>			
Revenue from external customers	3,567,224	2,370,871	<u>5,938,095</u>
Revenue from operations			<u><u>5,938,095</u></u>
<b>Segment results</b>	412,920	221,106	634,026
<b>Other segment information:</b>			
Share of profits of joint ventures	—	40,919	40,919
Share of profits of associates	5,484	—	5,484
Impairment losses recognised in the statement of profit or loss	4,869	221	5,090
Impairment losses reversed in the statement of profit or loss	(58,109)	—	(58,109)
Depreciation and amortisation	63,554	311,663	375,217
Investments in joint ventures	—	451,469	451,469
Investments in associates	104,521	—	104,521
Capital expenditure ( <i>note</i> )	125,859	380,717	506,576
<b>31 December 2019</b>			
<b>Segment assets</b>	11,158,045	7,477,835	18,635,880
<b>Segment liabilities</b>	8,310,119	5,084,507	13,394,626

*Note:* Capital expenditure consists of additions to property, plant and equipment, including assets from the acquisition of a subsidiary.

#### **Information about major customers**

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

#### 4. REVENUE, OTHER INCOME AND GAINS

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

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

##### Revenue

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from contracts with customers	7,371,550	5,752,708
Effective interest income on concession financial assets	<u>275,109</u>	<u>185,387</u>
Total revenue	<u><u>7,646,659</u></u>	<u><u>5,938,095</u></u>

##### (i) Disaggregated revenue from contracts with customers

Disaggregated revenue information for revenue from contracts with customers:

31 December 2020	The PRC <i>RMB'000</i>	New Zealand <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Types of goods or services</b>			
Construction services under service			
concession arrangements	3,605,593	—	3,605,593
Operation services under service			
concession arrangements	724,192	—	724,192
Electronic appliance dismantling	444,791	—	444,791
Operation services not under service concession			
arrangements	30,130	2,259,055	2,289,185
Others	<u>307,591</u>	<u>198</u>	<u>307,789</u>
Total revenue from contracts with customers	<u><u>5,112,297</u></u>	<u><u>2,259,253</u></u>	<u><u>7,371,550</u></u>
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	491,438	74,953	566,391
Services transferred at a point in time	765,507	2,184,300	2,949,807
Services transferred over time	<u>3,855,352</u>	<u>—</u>	<u>3,855,352</u>
Total revenue from contracts with customers	<u><u>5,112,297</u></u>	<u><u>2,259,253</u></u>	<u><u>7,371,550</u></u>

31 December 2019	The PRC RMB'000	New Zealand RMB'000	Total RMB'000
<b>Types of goods or services</b>			
Construction services under service concession arrangements	2,318,307	—	2,318,307
Operation services under service concession arrangements	451,804	—	451,804
Electronic appliance dismantling	442,189	—	442,189
Operation services not under service concession arrangements	33,543	2,366,423	2,399,966
Others	135,995	4,447	140,442
Total revenue from contracts with customers	3,381,838	2,370,870	5,752,708
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	503,733	107,953	611,686
Services transferred at a point in time	464,047	2,262,917	2,726,964
Services transferred over time	2,414,058	—	2,414,058
Total revenue from contracts with customers	3,381,838	2,370,870	5,752,708

**(ii) Performance obligations**

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

*Construction services under service concession arrangements*

The performance obligation is satisfied over time as services are rendered and payment is generally along with the operating service rendered in the operating period according to the service concession arrangements.

*Operation services under service concession arrangements*

The performance obligation is satisfied when services are rendered and payment is generally due upon the completion of the operation services according to the service concession arrangements.

*Electronic appliance dismantling*

Revenue from electronic appliance dismantling is derived from two performance obligations: sale of dismantled parts which is satisfied upon delivery and payment in advance is normally required; and rendering of dismantling services to the PRC government which is satisfied over time as the services are rendered and payment is generally due around 3 years from the completion of dismantling. The Group has considered the effect of the significant financing component on the transaction price.

### *Operation services not under service concession arrangements*

Revenue from operation services not under service concession arrangements is derived from following performance obligations: waste collection, landfill and technical services which are satisfied once the promised service is rendered to a customer; and recycling which is satisfied at the point in time when a promised good or service is transferred to a customer. Payment in advance for waste collection in New Zealand and technical service in the PRC is normally required and payment for landfill, technical services and recycling in New Zealand is generally due within 50 days according to the terms of agreements or upon the transfer.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
Amounts expected to be recognised as revenue:		
Within one year	<b>3,461,705</b>	3,360,116
After one year	<b>25,470,624</b>	23,138,962
	<b>28,932,329</b>	26,499,078

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue within one year mainly relate to construction services. All the other amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year mainly relate to operation services to be satisfied during the operation period according to service concession arrangements. The amounts disclosed above do not include variable consideration which is constrained.

### **Other income and gains**

	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
Bank interest income	<b>7,432</b>	6,836
Other interest income	<b>31,383</b>	22,950
Dividend income from financial assets at fair value through other comprehensive income	—	1,972
Gain on disposal of items of property, plant and equipment	<b>825</b>	187
Gain on step acquisition	<b>7,381</b>	—
Government grants	<b>97,176</b>	27,185
Reversal of impairment of prepayments, other receivables and other assets	<b>420</b>	56,622
Foreign exchange gains	<b>9,871</b>	361
Fair value adjustment of contingent consideration	—	4,551
Others	<b>5,905</b>	3,185
	<b>160,393</b>	123,849

## 5. PROFIT BEFORE TAX

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cost of services rendered for service concession arrangements	3,624,423	2,449,848
Cost of other services provided	1,679,436	1,617,108
Cost of inventories sold	408,463	303,677
Depreciation*		
— Property, plant and equipment	278,951	247,029
— Right-of-use assets	53,008	51,627
Amortisation of other intangible assets*	122,349	76,561
Research and development costs	8,096	—
Lease payments not included in the measurement of lease liabilities*	41,942	35,141
Auditor's remuneration		
— Audit services	5,005	4,356
— Non-audit services	1,843	2,337
Employee benefit expense (excluding directors' emoluments):		
Wages and salaries	334,381	314,426
Pension scheme contributions	26,933	29,511
Foreign exchange differences, net	(8,103)	9,863
Impairment of financial and contract assets, net:		
Impairment of trade receivables	11,675	3,603
Reversal of impairment of financial assets included in prepayments, other receivables and other assets	(420)	(56,622)
Impairment of other intangible assets	83,218	—
Gain on disposal of items of property, plant and equipment	825	(187)
Loss on derivative financial instruments	16,821	23,663
	<u>554,713</u>	<u>435,805</u>

\* These items for the year are included in “Cost of sales” and “Administrative expenses” in the consolidated statement of profit or loss.

## 6. FINANCE COSTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on bank and other borrowings	340,706	280,627
Interest on notes payable ( <i>note 15</i> )	127,428	126,652
Interest on corporate bonds ( <i>note 16</i> )	21,874	—
Interest on lease liabilities	55,890	13,684
Other finance costs:		
Increase in discounted amounts of provisions arising from the passage of time	2,080	4,551
Others	6,735	10,291
	<u>554,713</u>	<u>435,805</u>

## 7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Withholding Hong Kong profits tax was calculated at 10% (2019: 10%) on the interest income recognised by a subsidiary in Hong Kong from a subsidiary in New Zealand.

Under the Law of the PRC Enterprise Income Tax and Implementation Regulation of the law, the tax rate of the PRC subsidiaries was 25% for both years. Thirty-five (2019: Twenty-nine) of the Group's subsidiaries operating in the PRC were eligible for certain tax benefits. Twenty-two (2019: Twenty-two) were exempted from PRC income taxes, whereas another nine (2019: three) were entitled to a preferential tax of 12.5%, and another four (2019: four) were entitled to preferential tax rates of 5%, 7.5%, 10% and 15%, respectively, for the year.

New Zealand profits tax has been provided at the rate of 28% (2019: 28%) on the estimated assessable profits arising in New Zealand during the year.

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

According to PRC tax regulations, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, are subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from entities in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. At 31 December 2020, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC (2019: nil). In the opinion of the directors, it is not probable that the Group's PRC subsidiaries will distribute profits in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,575,869,000 (2019: RMB766,404,000).

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Current — Hong Kong		
Charge for the year	<b>25,990</b>	25,840
Current — the PRC		
Charge for the year	<b>135,257</b>	37,511
Underprovision in prior years	<b>1,109</b>	335
Current — New Zealand		
Charge for the year	<b>22,193</b>	23,680
Underprovision in prior years	<b>1,612</b>	878
Deferred	<b>95,204</b>	119,887
	<b>281,365</b>	208,131

## 8. DIVIDENDS

No dividend was paid or proposed by the Company during 2020, nor has any dividend been proposed by the Company since the end of the reporting period (2019: nil).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 14,294,733,167 (2019: 14,294,733,167) in issue during the year, as adjusted to reflect the rights issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

The calculation of basic earnings per share is based on:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>465,041</u>	<u>302,749</u>
	<b>Number of shares</b>	
	2020	2019
<b>Shares</b>		
Weighted average number of shares in issue during the year used in the basic earnings per share calculation	<u>14,294,733,167</u>	<u>14,294,733,167</u>

## 10. CONCESSION FINANCIAL ASSETS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Analysed for reporting purposes as:		
Current assets	805,902	411,834
Non-current assets	<u>4,455,330</u>	<u>1,818,652</u>
	<u><u>5,261,232</u></u>	<u><u>2,230,486</u></u>

Concession financial assets represent costs incurred by the Group for the construction rendered under service concession arrangements of waste treatment and waste-to-energy plants in the PRC on a BOT, TOT or BOO basis, plus the attributable profits on the services provided.

The effective interest rates used in service concession arrangements ranged from 5.00% to 6.56% for the year ended 31 December 2020.

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

During the operation phase of the respective service concession periods, the Group will receive guaranteed waste treatment fees from the Grantor. In addition, for some service concession arrangements, the Group will receive fees arising from the electricity generated from waste treatment based on the guaranteed volumes after the commencement of the operation phase of the waste-to-energy plants. Concession financial assets are expected to be recovered along with and on condition of rendering operation services in the operating periods.

The Group recognised revenue from construction services of RMB3,605,593,000 (2019: RMB2,318,307,000) by reference to the stage of completion of the construction work and revenue from operation services of RMB724,192,000 (2019: RMB451,804,000) for all the service concession arrangements of the Group (note 4). The gross profits recognised from construction services amounted to RMB581,849,000 (2019: RMB365,772,000) and the gross profits recognised from operation services amounted to RMB251,500,000 (2019: RMB118,165,000) for all the service concession arrangements of the Group.

As at 31 December 2020, the major terms of the Group's significant service concession arrangements with guaranteed receipts are set out as follows:

Name of subsidiary as operator	Name of waste treatment and waste-to-energy plant	Location	Name of Grantor	Service concession period	Maximum daily capacity	Electricity generation	Balance as at 31 December 2020 RMB'000	Balance as at 31 December 2019 RMB'000
Huizhou Guanghui Energy Company Limited (惠州廣惠能源有限公司)	Huizhou Municipal Solid Waste Incineration Power Generation Plant (惠州市生活垃圾焚燒發電廠)	Luzhouzhen, Huicheng, Huizhou	Huizhou Environmental and Hygiene Control Authority (惠州市市容環境衛生管理局)	March 2018 to March 2047 (30 years)	1,600 tonnes	161 million kWh	1,228,366	—
Nanchang Capital Environment Energy Co., Ltd. (南昌首創環保能源有限公司)	Nanchang Solid Waste Incineration Power Generation Plant (南昌市垃圾焚燒發電廠)	Quanling, Nanchang	Nanchang City Environment Administration (南昌市人民政府)	October 2016 to September 2041 (25 years)	1,200 tonnes	131 million kWh	555,326	566,066
Nanyang Capital Environment Technology Company Limited (the First Branch) (南陽首創環境科技有限公司第一分公司)	Solid Waste Incineration Power Generation Plant Project for Zhechuan, Xixia and Neixiang (浙川、西峽、內鄉三縣行政區域交界處合適位置共建生活垃圾焚燒發電項目)	Nanyang, Henan	Nanyang Housing and Urban-Rural Construction Commission (南陽市住房和城鄉建設委員會)	30 years after obtaining the approval for commercial operation	1,800 tonnes	114 million kWh	507,587	—
Xinxiang Capital Solid Environmental Energy Limited (新鄉市首創環境能源有限公司)	Xinxiang Solid Waste Treatment Project (新鄉市生活垃圾處理服務項目)	Xinxiang, Henan	Xinxiang City Administration (新鄉市城市管理局)	25 years after obtaining the approval for commercial operation	1,000 tonnes	219 million kWh	468,722	—
Duyun Capital Environment Company Limited (都勻市首創環保有限公司)	Duyun Solid Waste Incineration Power Generation Plant (都勻市生活垃圾焚燒發電廠)	Duyun, Guizhou	Duyun People's Government (都勻市人民政府)	30 years after obtaining the approval for commercial operation	900 tonnes	64 million kWh	387,417	375,151
Suixian Capital Environmental Energy Limited (睢縣首創環保能源有限公司)	Suixian Solid Waste Incineration Power Generation Project (睢縣生活垃圾焚燒發電項目)	Suixian, Henan	Suixian Urban Management and Law Enforcement (睢縣城市管理行政執法局)	30 years after obtaining the approval for commercial operation	600 tonnes	61 million kWh	276,348	268,257
Xihua Capital Environment Resources Limited (西華首創環保能源有限公司)	Xihua Solid Waste Incineration Power Generation Plant Project (西華縣結祥和生活垃圾焚燒發電項目)	Zhoukou, Henan	Xihua People's Government (西華縣人民政府)	30 years after obtaining the approval for commercial operation	1,200 tonnes	60 million kWh	224,523	—
Nanyang Capital Environment Technology Company Limited (南陽首創環境科技有限公司)	Garbage Collection, Transport and Processing Project for Xichuan, Xixia and Neixiang (浙川、西峽、內鄉三縣鄉鎮垃圾收集、轉運、處理項目)	Nanyang, Henan	Nanyang Housing and Urban-Rural Construction Commission (南陽市住房和城鄉建設委員會)	30 years after obtaining the approval for commercial operation	724 tonnes	N/A	223,397	227,160
Huainan Capital Environment Recovery Engineering Co., Ltd. (淮南首創環境修復工程有限公司)	Huainan Informal Domestic Waste Heaps Treatment Project (淮南市非正規生活垃圾堆放點治理PPP項目)	Huainan Anhui	Huainan Urban Management and Law Enforcement (淮南市城市管理行政執法局)	8 years after obtaining the approval for commercial operation	N/A	N/A	219,905	—
Zhengyang Capital Environmental Energy Company Limited (正陽首創環保能源有限公司)	Zhengyang Solid Waste Incineration Power Generation Project (正陽縣生活垃圾焚燒發電項目)	Zhengyang, Zhumadian, Henan	Zhengyang Urban Management and Comprehensive Law Enforcement (正陽縣城市管理綜合執法局)	30 years after obtaining the approval for commercial operation	600 tonnes	53 million kWh	183,630	—
Others*							986,011	793,852
							<u>5,261,232</u>	<u>2,230,486</u>

\* Others represent waste collection and transportation projects, incineration projects and kitchen waste concentration projects without significant concession financial assets.

## 11. CONTRACT ASSETS

The Group entered into service concession arrangements in respect of the waste management and waste-to-energy business in the PRC. According to HKFRS 15, the receivables in relation to the construction services should be accounted for as contract assets and will be transferred to concession financial assets or other intangible assets once the construction is completed.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Contract assets arising from:		
Construction services	3,187,173	3,420,812
Electricity generation	42,493	—
Impairment	—	—
	<u>3,229,666</u>	<u>3,420,812</u>
Analysed for reporting purpose as:		
Current assets	123,917	212,876
Non-current assets	<u>3,105,749</u>	<u>3,207,936</u>
	<u>3,229,666</u>	<u>3,420,812</u>

Contract assets are initially recognised for revenue earned from the construction services as the receipt of consideration is conditional on successful completion of construction. Included in contract assets for construction services are retention receivables. Upon completion of construction and acceptance by the grantor, the amounts recognised as contract assets are reclassified to concession financial assets or other intangible assets. The increase in contract assets was the result of the increase in the provision of construction services during each of the years.

Contract assets arising from electricity generation mainly represented government on-grid tariff subsidies for certain projects which will be billed and settled upon the successful completion of government administrative procedures pursuant to notices jointly issued by the Ministry of Finance, the National Development and Reform Commission and the National Energy Administration. The expected timing of completion is within one year.

The expected timing of completion of construction for contract assets as at 31 December is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within one year	2,837,334	3,117,140
After one year	<u>349,839</u>	<u>303,672</u>
Total contract assets	<u>3,187,173</u>	<u>3,420,812</u>

In the opinion of the Company's directors, there is no loss from expected credit risk exposure as all of the contract assets are due from the Ministry of Finance or due from the Grantors, which are government authorities in the PRC with a high reputation, and loss from credit risk exposure has never occurred for these contract assets in history.

## 12. TRADE RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	1,518,259	1,316,234
Impairment	<u>(18,614)</u>	<u>(14,280)</u>
	<u><b>1,499,645</b></u>	<u><b>1,301,954</b></u>
Analysed for reporting purposes as:		
Current assets	1,132,849	1,301,954
Non-current assets	<u>366,796</u>	<u>—</u>
	<u><b>1,499,645</b></u>	<u><b>1,301,954</b></u>

Trade receivables, which are non-interest-bearing, are recognised and carried at the original invoiced amount less any loss allowance. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
0 to 90 days	540,743	497,663
91 to 180 days	200,450	180,894
Over 180 days	<u>758,452</u>	<u>623,397</u>
	<u><b>1,499,645</b></u>	<u><b>1,301,954</b></u>

### 13. TRADE PAYABLES

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
0 to 90 days	1,240,274	677,579
91 to 180 days	116,066	70,250
Over 180 days	496,889	360,658
	<u>1,853,229</u>	<u>1,108,487</u>

Included in the trade payables are amounts of RMB97,000 (2019: RMB87,000) and RMB4,659,000 (2019: RMB1,957,000) due to joint ventures and the other operator of Waste Disposal Services, respectively, with similar credit terms offered by them to their major customers.

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

### 14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020			2019		
	Effective interest rate (%)	Maturity	<i>RMB'000</i>	Effective interest rate (%)	Maturity	<i>RMB'000</i>
<b>Current</b>						
Bank loans — secured	4.35–4.57	2021	27,950	4.35–4.79	2020	95,000
Bank loans — unsecured	1.29–4.35	2021	790,050	2.26–4.57	2020	866,167
Current portion of long term						
bank loans — secured	4.20–5.15	2021	223,397	4.41–5.15	2020	148,730
bank loans — unsecured	1.37–2.61	2021	7,266	3.29–3.55	2020	7,500
other loans — secured	4.89–6.15	2021	134,391	4.75–5.39	2020	104,236
other loans — unsecured	5.50	2021	2,677,118			—
			<u>3,860,172</u>			<u>1,221,633</u>
<b>Non-current</b>						
Other secured bank loans	4.20–5.15	2023–2038	2,903,090	4.41–5.64	2021–2034	1,369,577
Other unsecured bank loans	1.37–3.93	2022–2036	712,272	3.29–3.93	2022–2036	820,956
Other loans — secured	3.46–6.15	2023–2026	1,124,612	4.89–6.15	2023–2026	1,189,800
Other loans — unsecured	1.20–3.56	2024–2031	117,000	1.20–5.50	2021–2031	2,728,857
			<u>4,856,974</u>			<u>6,109,190</u>
			<u>8,717,146</u>			<u>7,330,823</u>

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	1,048,663	1,117,397
In the second year	870,453	188,712
In the third to fifth years, inclusive	1,014,508	1,187,358
Beyond five years	<u>1,730,401</u>	<u>814,462</u>
	<u>4,664,025</u>	<u>3,307,929</u>
Other borrowings repayable:		
Within one year	2,811,509	104,236
In the second year	235,653	2,808,087
In the third to fifth years, inclusive	922,924	1,004,680
Beyond five years	<u>83,035</u>	<u>105,891</u>
	<u>4,053,121</u>	<u>4,022,894</u>
	<u><u>8,717,146</u></u>	<u><u>7,330,823</u></u>

*Notes:*

- (1) Bank loans of RMB326,139,000 as at 31 December 2020 (31 December 2019: RMB410,821,000) were guaranteed by the corporate guarantee of the Group.
- (2) Bank loans of RMB809,207,000 as at 31 December 2020 (31 December 2019: RMB570,901,000) were secured by the service concession arrangements of the Group.
- (3) Bank loans of RMB1,658,514,000 as at 31 December 2020 (31 December 2019: RMB414,249,000) were guaranteed by the corporate guarantee of the Group, and were secured by the service concession arrangements of the Group.
- (4) A bank loan of RMB4,430,000 as at 31 December 2020 (31 December 2019: RMB13,660,000) was guaranteed by a corporate guarantee of a subsidiary of Beijing Capital Group.
- (5) A bank loan of RMB173,346,000 as at 31 December 2020 (31 December 2019: RMB128,676,000) was guaranteed by a corporate guarantee of the Group and Beijing Construction Engineering Group Co., Ltd (北京建工集團有限責任公司).
- (6) Other loan of RMB69,000,000 (31 December 2019: nil) from China Clean Development Mechanism Fund (中國清潔發展機制基金) as at 31 December 2020 was secured by the service concession arrangement in Fuzhou Capital Haihuan Environmental Technology Co., Ltd (福州首創海環環保科技有限公司).
- (7) Bank loans of RMB182,801,000 as at 31 December 2020 (31 December 2019: RMB75,000,000) were guaranteed by a corporate guarantee of the Group, and were secured by the leasehold land and buildings with a carrying amount of RMB96,176,000 (31 December 2019: RMB80,807,000).

- (8) Other loan of RMB65,195,000 from Beijing Guozi Financial leasing Co., Ltd. (北京國資融資租賃股份有限公司) as at 31 December 2020 (31 December 2019: RMB81,365,000) was secured by the service concession arrangement in Zhejiang Zhuoshang Environmental Energy Company Limited (浙江卓尚環保能源有限公司).
- (9) Other loan of RMB124,808,000 from China Merchants Bank Financial Leasing Co., Ltd. (招銀金融租賃有限公司) as at 31 December 2020 (31 December 2019: RMB139,952,000) was guaranteed by a corporate guarantee of the Group, and was secured by the service concession arrangement in Duyun Capital Environment Company Limited (都勻市首創環保有限公司).
- (10) Other loan of RMB1,000,000,000 from Ping An Asset Management Co., Ltd. (平安資產管理有限責任公司) as at 31 December 2020 (31 December 2019: RMB1,000,000,000) was guaranteed by a corporate guarantee of Beijing Capital Group.

Included in other borrowings is a loan of NZ\$570,000,000 (equivalent to approximately RMB2,677,118,000) from BCG Chinastar which is unsecured, bears interest at 5.5% per annum and has the maturity date on 31 May 2021.

As at 31 December 2020, the Group had undrawn borrowing facilities amounting to RMB2,158,428,000 (2019: RMB1,405,390,000).

As at 31 December 2020, the Group's bank and other loans of RMB4,147,777,000 were charged at fixed interest rates while RMB4,569,369,000 were charged at floating interest rates. The carrying amounts of the Group's current borrowings approximate to their fair values.

## 15. NOTES PAYABLE

On 11 September 2018 and 18 October 2018, the Group issued notes in an aggregate principal amount of US\$250 million (equivalent to RMB1,715,800,000) and US\$50 million (equivalent to RMB343,160,000) with a total discount of US\$896,000 (equivalent to RMB6,147,000), respectively. These two tranches of notes form a single series which is listed on the Stock Exchange of Hong Kong Limited. The net proceeds after deducting the transaction costs of RMB7,371,000 were RMB2,045,442,000. These notes bear interest from 11 September 2018 at 5.625% per annum payable semi-annually in arrears on 11 March and 11 September of each year, beginning on 11 March 2019. Unless early redeemed, or purchased or cancelled, these notes will be redeemed at their principal amount on 10 September 2021.

After initial recognition, these notes are subsequently measured at amortised cost, using the effective interest rate method. Amortised cost is calculated by taking into account transaction costs that are an integral part of the effective interest rate.

The movements of notes payable during the year are as follows:

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Liabilities as at 1 January	<b>2,080,404</b>	2,046,726
Interest reclassified in the previous year	<b>35,899</b>	33,532
Interest during the year	<b>127,428</b>	126,652
Interest paid during the year	<b>(115,980)</b>	(128,319)
Exchange realignment	<b>(143,792)</b>	37,702
	<b>1,983,959</b>	2,116,293
Less: Interest to be paid within one year	<b>(33,762)</b>	(35,889)
Liabilities at 31 December	<b><u>1,950,197</u></b>	<u>2,080,404</u>

## 16. CORPORATE BONDS

On 29 May 2020, the Company issued its first branch corporate bonds in an aggregate principal amount of RMB1 billion at par value, which is listed on the Shanghai Stock Exchange. The net proceeds after deducting the transaction costs of RMB3,000,000 and the initially paid guarantee fee of RMB5,000,000 were RMB992,000,000. The bonds bear interest from 29 May 2020 at 3.1% per annum payable annually in arrears on 29 May of each year, and are guaranteed by Beijing Capital Group with a guarantee fee based on 0.5% per annum of the principal amount. The maturity date of the bonds is 29 May 2025, while the bonds provide an option for the Company to adjust the coupon rate and a put option to the investors at the end of the third year. The Company's option to adjust the coupon rate and the investors' option to resale are closely related to the economic characteristics and risks of the bonds. Furthermore, the Company expected that these bonds may be redeemed on 29 May 2023.

After initial recognition, these corporate bonds are subsequently measured at amortised cost, with terms of 3 years, using the effective interest rate method. Amortised cost is calculated by taking into account transaction costs that are an integral part of the effective interest rate.

The movements of corporate bonds during the year are as follows:

	<b>2020</b>
	<b><i>RMB'000</i></b>
Corporate bonds issued	<b>992,000</b>
Interest during the year	<b>21,874</b>
	<b><u>1,013,874</u></b>
Less: Interest to be paid within one year	<b>(18,345)</b>
Liabilities at 31 December 2020	<b><u>995,529</u></b>

## 17. PREFERENCE SHARES

The Company issued 11,000,000 preference shares to Beijing Capital (Hong Kong) Limited on 22 December 2020 and 4,705,200 preference shares to BCG Chinastar on 31 December 2020 (“Preference Shares”), which were fully paid and with a par value HK\$100 each. They were classified as equity, resulting in credits to other equity instrument-preference shares of approximately RMB1,321,812,000 (equivalent to HK\$1,570,520,000). The transaction cost of RMB4,874,000 was accounted for as a deduction from the equity.

The Preference Shares are perpetual and have no maturity date, which are not convertible into ordinary shares. Besides, the Preference Shares are not redeemable at the option of the holders and they also have no right to put back the shares to the Company.

However, the Company may, at its sole discretion in each case as permitted by and in accordance with applicable law, at any time upon giving not less than 30 nor more than 60 days’ notice to the holders and related fiscal agent, redeem in whole or in part the Preference Shares, until all the Preference Shares have been redeemed. The redemption price for each Preference Share so redeemed shall be the aggregate of an amount equal to its par value plus any accumulated but unpaid dividends.

Each Preference Share shall entitle its holder to receive dividends which have not been otherwise cancelled. Each dividend will be payable annually in arrear on 22 December in each year (the “Dividend Payment Date”). In respect of the period from the issue date to the First Call Date (22 December 2023), the dividend rate shall be the initial dividend rate of 4% per annum. Since the First Call Date, the dividend rate shall be the aggregate of: (i) the initial dividend rate of 4%; and (ii) a step-up margin of 3% per annum. However, the Company may, at its sole discretion, elect to defer (in whole or in part) any dividend which is otherwise scheduled to be paid on a Dividend Payment Date to the next Dividend Payment Date. The Company is not subject to any limit as to the number of times dividends and arrears of dividends can or shall be deferred, subject to the subscription agreement.

The holders of the Preference Share shall not be entitled to convene, attend or vote at any general meeting, other than when the business of the general meeting is to consider any resolution to (i) amend the Articles of Association to modify the rights and privileges attached to the Preference Shares, or (ii) adversely modify any of the special rights and privileges attached to the Preference Shares, or (iii) convene proceedings in respect of the Company for reconstruction, consolidation, amalgamation, merger, reorganisation or winding-up of the Company (each, a “Variation Resolution”), in which case the preference shareholders of the Company will be entitled to attend the general meeting and vote only upon such Variation Resolution, and the preference shareholders of the Company will be entitled to one vote in respect of each outstanding Preference Share and vote together with other preference shareholders as a separate class from the ordinary shareholders of the Company. The Preference Shares held by, or on behalf of, the Company shall have no voting rights.

According to the subscription agreement, 611,000 preference shares with an amount of HK\$61,100,000 subscribed by BCG Chinastar were still unpaid as at 31 December 2020.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Business Review and Outlook*

In 2020, the global economic and financial conditions underwent dramatic changes. Against the backdrop of global spread of the COVID-19, various conflicts and problems in the international economy accumulated over the past decade have become increasingly acute, with real industries, investment confidence, and social governance suffering an all-round impact. The international financial markets have been shaken up. While responding to weakening international economy, China has waged a people's war on the epidemic prevention and control, and actively promoted economic reform. The favorable policy of comprehensively advancing the development of the green economy and the environmental protection industry has made the green economy and the environmental protection industry the first engine of China's economic development, laying a foundation for the new economic development pattern in the future.

2020 is the decisive year of the "13th Five-Year Plan" and the year of planning and layout for the "14th Five-Year Plan". In this important node year, the Central People's Government has issued a number of new policies on the green economy and the environmental protection industry, including the Opinions on Promoting the Healthy Development of Non-hydro Renewable Power Generation (《關於促進非水可再生能源發電健康發展的若干意見》) and Measures for the Administration of Additional Subsidies for Renewable Energy Electricity Prices (《可再生能源電價附加補助資金管理辦法》) jointly announced by the Ministry of Finance, National Development and Reform Commission and National Energy Administration, and the Guiding Opinions on Building Contemporary Environmental Governance System (《關於構建現代環境治理體系的指導意見》) jointly published by the General Office of the CPC Central Committee and the General Office of the State Council in March 2020. The above-mentioned environmental protection policies have provided constructive guidance and regulation on tariff subsidies, emission indicators, timely data testing, reward and penalty systems for environmental protection business, etc. They also highlight the legal, scientific and precise treatment of pollution, which is conducive to strengthening the energy-saving and environmental protection industry and promoting the construction of ecological civilization. In addition, Premier Li Keqiang pointed out in his government work report for the fourth session of the 13th National People's Congress that "an action plan to reach peak carbon emissions by 2030", "reaching carbon peak" and "carbon neutral" and other key initiatives have been developed, and green development and transformation of the green economy have also set the main tone of development. This shows the determination of the Central People's Government to "optimise the industrial structure and energy mix", "promote the clean and efficient use of coal", protect the environment and develop new energy. It is believed that the green economy and the environmental protection industry can enter the path of long-term sustainable development at a high speed in the future.

Under the general trend of vigorous development of the green economy and the environmental protection industry, the Company has actively responded to national strategies and conformed to industry development. It has focused on value creation and fully implemented the strategic deployment of Beijing Capital Group, a substantial shareholder of the Company, for the “14th Five-Year Plan”. It carried out the “ecology +” strategy of the environmental protection segment and adhered to the general keynote of seeking progress in stability. It also coordinated and promoted the implementation of “double promotion and guarantee” concept in accordance with the general philosophy of “seeking development through optimization” formulated by the Group. With the theme of advancing quality development, the main line of enhancing operational and management capabilities, and the fundamental driving force of technological innovation, the Group has strengthened various capacity building, accelerated the filling of business shortcomings, and carried out in-depth refinement management, to realize continuous optimization of operating efficiency. The Group has promoted a fast improvement of operating efficiency through organizational restructuring and key business process reengineering, to realize quality-based growth of the Group.

In respect of results of operation, total assets of the Group reached RMB24,059 million, representing a year-on-year increase of 29.10%; our turnover was RMB7,647 million, representing a year-on-year increase of 28.77%; profit for the year was RMB496 million, representing a year-on-year increase of 16.44%; our net profit attributable to parent company was RMB465 million, representing a year-on-year increase of 53.61%.

In terms of project reserves, the Group secured a total of 71 projects (including 25 waste-to-energy projects, 7 waste landfill projects, 7 anaerobic digestion technology treatment projects, 18 waste cleaning, collection and transportation and comprehensive treatment projects, 10 hazardous waste treatment projects, 2 dismantling electronic appliances waste projects and 2 biomass resources electricity generation projects) in the PRC with a total investment of approximately RMB17,900 million, of which the amount of RMB11,241 million has been injected before 31 December 2020. The facilities are designed with an aggregate annual household waste treatment capacity of approximately 13.82 million tons and annual electrical and electronic equipment dismantling volume of approximately 3.20 million units. The said projects have gradually entered the construction and operation period. As of 31 December 2020, there were 64 domestic projects which have entered the construction and operation period.

In terms of project operations management, the Group establishes a coordination mechanism at the project level to optimize the business of its existing projects. Gaining overall development promoted by local development, the Group achieves business profit growth and improves project operating efficiency. During the year, the Group’s 7 incineration projects in Huizhou, Ruijin, Xihua, Nanyang, Suixian, Xinxiang and Zhengyang have gradually transferred to commercial operation stage, increasing the capacity of waste incineration to 19,100 tons per day. As of 31 December 2020, the Group’s operation and trial operation projects reached 46. Among them, there are 12

incineration projects, 5 landfill projects, 18 waste cleaning, collection and transportation and comprehensive treatment projects, 2 dismantling projects, 6 anaerobic projects and 3 hazardous waste projects. Key tasks were carried out in an orderly manner according to our scientific management plan. The annual domestic waste disposal was 5,192,900 tons, hazardous waste disposal was 8,600 tons, the dismantling amounted to 2,849,200 units, and 7,151,000 square meters of cleaning work was completed. The total amount of on-grid electricity provided was 684,000,000 kWh.

In terms of project investment and construction, the Group actively adjusted its business portfolio and investment direction, including quality improvement in its existing business, horizontal advancement in its technology-based asset-light business and realization of high-quality development in the asset-heavy business through super dimensional thinking.

**Quality improvement in the existing business:** The Group actively responded to the changes in industrial policies to ensure that its existing projects benefit from national subsidies policies. 7 waste incineration projects were successively completed and connected to the grid. In addition, the Group completed signing the contract for the Hangzhou Kitchen Waste Project Phase II and the price adjustment for the Hangzhou and Yangzhou Kitchen Waste Projects. It also made a positive progress in the Fuzhou Kitchen Waste Project and Ningbo Kitchen Waste Project Phase II.

**Breadth advancement in technology-based asset-light business:** To implement the requirement of high-quality development, the Group has changed its development concept in pursuit of expansion in scale but explored and implemented various technical asset light investment models, striving to build up its capability to plan for intelligent environmental sanitation products. During the year, the Group successively made positive progress in the sanitation, landfill management and entrusted operation businesses.

**Thinking outside the box to achieve quality development in the asset-heavy business:** The Group has always adhered to the general keynote of selecting the best from the best and the general principle of strengthening incremental capacity and optimising existing capacity, acquiring large and influential projects with a concentration of advantageous resources, and enhancing industry synergies with the incineration business as the core. During the year, the Group completed signing of the second phase project of the solid waste incineration power plant in Quanling, Nanchang, a representative project of the Group's high level of capacity, which marked an important measure to consolidate the results of structural adjustment and move towards the goal of higher quality development. In addition, the Group has formed a systematic solution thereby it will explore synergistic demands of surrounding incineration projects and promote vertical synergies, horizontal linkages and mutual complementarity of regional projects, aiming at synergistic extension and expansion of the industrial chain.

In terms of project management, the Group made efforts in five areas to steadily improve project efficiency, including optimization of design and strict control over total project investment; centralized equipment procurement to reduce costs; speeding up of process quality improvement to reduce the amount of project verification; dynamic tracking of budget and actual costs based on budget execution; enhancement of standardization of project management and acceleration of integration of project management resources to form a resource sharing platform. The Group has secured government financial subsidies of RMB55 million which provides favorable conditions for sustainable development of the enterprise in the future.

In terms of technological upgrade, the Group will build itself as a large-scale environmental protection technology enterprise that is market-oriented with integration of internal and external markets as well as technology and operation, and transform from investment-driven to technology and capability-driven development, promoting in-depth integration of technology and operation. During the year, Beijing Capital Environment Technology Co., Ltd. (北京首創環境科技有限公司), a wholly-owned subsidiary of the Group in the technological innovation sector, seized the opportunity of transforming into a technology-based company, and insisting on technology as its core, strengthened the mode of combining external business with capital. The enterprise focused on business transformation, market expansion, business capacity building, internal control improvement, innovation-driven growth and technology-industry integration to achieve breakthroughs through quality improvement.

The Group adheres to the path of institutional innovation in parallel with technological innovation by valuing technology talents and the building of technological innovation capabilities. 2020 saw further improvement in the technological innovation system and gradual strengthening of the talents team for technological innovation. Through efforts and scientific exploration, a number of research achievements have been achieved. As at 31 December 2020, a technology company of the Group was awarded the small and medium-sized enterprise of “Specialty, Excellency, Uniqueness and Innovation” honor (「專精特新」中小企業榮譽) in Beijing, and was recognized as pilot unit for intellectual property rights by the Beijing Municipal Property Office. One of the products in ecological restoration segment was included in the Catalogue of Major Environmental Protection Technology Equipment Encouraged for Development by the State (2020 Edition) (《國家鼓勵發展的重大環保技術裝備目錄(2020年版)》), plus one of the technologies was awarded the title of new product with new technology in Beijing (北京市新技術新產品稱號). Seven items of technology and equipment, including efficient SNCR, ultra-low emission of biomass flue gas, leachate softening and ultrafiltration, rapid decomposition equipment for informal landfills, as well as information products such as the integrated platform for environmental hygiene and the ERP system for hazardous waste, were promoted and applied, which played an important role in efficient operation of projects. 40 patents were applied for, including 13 invention patents and 2 software copyrights; there were 63 authorized patents, including 61 utility models, 1 software copyright and 1 design patent. In the future, the Group’s technological innovation platform will be operated to generate profits from external business and strengthen visible support in the acquisition of platform companies, internal EPC business, management resources and government resources, so as to make a good start for the “14th Five-Year Plan”.

In terms of market financing, the Group continued to expand its diversified financing channels and successfully issued RMB1 billion corporate bonds with a coupon rate of 3.10% during the year, the lowest interest rate for a small public offering with AA+ credit rating since 2007 on the Shanghai Stock Exchange. In addition, the Group issued cumulative perpetual non-voting and non-convertible overseas preference shares at a par value of HK\$100 per share with a total subscription price of HK\$1,570,520,000, as well as completed a round of financing in Hong Kong amounting to HK\$300 million with a one-year term at a low interest rate of 2.89%, effectively reducing the cost of capital utilization, maintaining a steady gearing ratio and addressing financing needs.

In terms of overseas market, the Group held 51% shares of BCG NZ Investment Holding Limited (“BCGNZ Group”), and has established a national wide network which vertically integrated the local waste system. BCGNZ Group provides the comprehensive waste management service in New Zealand including waste collection, recycling, disposition of hazardous and industrial waste, and served more than 300,000 customers in major cities of New Zealand, such as Auckland, Wellington and Christchurch, continuingly remains as a national leader in New Zealand. In the future, the Group will accelerate the integration of its domestic and international businesses, explore synergistic demands, promote industry integration and collaborative assistance, seeking opportunities to increase revenue, so as to improve the profitability of its overseas business.

2020 was an exceptional and difficult year, with the COVID-19 outbreak posing a huge challenge to no matter individuals or businesses, or even the global economy. Throughout the year of epidemic prevention and control, the Group took up the responsibility as a state-owned enterprise to actively organize implementation of national policies on epidemic prevention and control, and carried out various epidemic prevention activities. All employees made concerted efforts and cooperated to provide an important guarantee for epidemic prevention and control and stable operation. In the future, the Group will, with continual recognition of the enormity, complexity and urgency of production safety, keep to its bottom line with a firm determination, organize systematic combing and comprehensive inspection of safety hazard sources of project companies, and work hard to build a foundation for the Group’s high-quality development.

Looking ahead, in line with the “ecology +” strategy and the “14th Five-Year Plan” strategy of Beijing Capital Group, the Group will accumulate development energy, accelerate the construction of environmental protection business system at all levels, and continue to optimize systems and procedures. It will work intensively with the “five in one” strategy of “technology, investment, construction, operation and consultation”, promoting improvement in project quality and efficiency. Also, the Group will propel the building of technology, operation and management capabilities and development of the asset light business. The Group will actively build a dual business line that is investment plus operation as well as technology plus operation, transforming itself into a technology-based enterprise. It will focus on promoting process innovation, product innovation and industry innovation, with increasing efforts made in the construction of a technology

talent resources system, research and development, academic and research cooperation, and the transformation system of technological achievements. The Group will gradually strengthen its technological base for development, find growth points for industrial value, accelerate the expansion of high-quality industries, and solidify the foundation for high-quality development. We are forging ahead in a new era, embarking on a new journey and writing a new chapter of quality development in the new stage of development.

## **FINANCIAL REVIEW**

### **Overview**

During the year under review, the Group's revenue from its waste treatment and waste-to-energy business reached RMB7,646.659 million, representing an increase of approximately 28.77% as compared to RMB5,938.095 million in 2019. Profit attributable to owners of the Group in 2020 was RMB465.041 million, representing an increase of approximately 53.61% as compared to RMB302.749 million in 2019. The increase of profit was mainly attributable to the strengthening of the Group's management of operating projects, improving operating efficiency, promoting a substantial increase in operating income, accelerating the progress of engineering projects, and driving the growth of construction services revenue.

The finance costs of the Group saw an increase of approximately 27.28% to approximately RMB554.713 million as compared to that of 2019. The increase was mainly due to the Company's new project loans and the issuance of RMB1 billion corporate bonds during the year under review.

### **Financial Position**

As at 31 December 2020, the Group had total assets amounting to approximately RMB24,059.068 million and net assets attributable to the owners of the Company were approximately RMB5,622.644 million. As at 31 December 2020, the gearing ratio (which is calculated on the basis of total liabilities over total assets) was 70.12%, a decrease of 1.76% from 71.88% at the end of 2019. The decrease was mainly due to the Group's use of equity financing to meet capital requirements by issuing preference shares to shareholders during the year under review. The current ratio (which is calculated on the basis of current assets over current liabilities) decreased from approximately 1.52 as at 31 December 2019 to approximately 0.71 as at 31 December 2020. The decrease was mainly due to the maturity of the US\$300 million bond in September 2021 and of the loan of NZ\$570 million obtained from our shareholder, BCG Chinastar (the "Loan") on 31 May 2021. The shareholder, BCG Chinastar, has committed to extend the maturity of the Loan if necessary and the Group's current ratio as at 31 December 2020 would remain greater than 1 if the impact of the reclassification of the Loan to current liabilities is excluded.

## **Financial Resources**

The Group finances its operations primarily with internally generated cash flow, equity financing, debt financing and loan facilities from banks. As at 31 December 2020, the Group had cash and bank balances and pledged bank deposits of approximately RMB2,817.244 million, representing an increase of approximately RMB1,216.474 million as compared to approximately RMB1,600.770 million at the end of 2019. The Group's cash and bank balances increased as a result of the issuance of preference shares to its shareholders, Beijing Capital (Hong Kong) Limited and BCG Chinastar, during the year under review. Combined with the Company's operating and investment plans, the current financial resources can meet the Company's operating and investment needs. Currently, most of the Group's cash is denominated in US\$, HK\$, RMB and NZ\$.

## **Borrowings**

As at 31 December 2020, the Group had outstanding borrowings of approximately RMB8,717.146 million, representing an increase of approximately RMB1,386.323 million as compared to approximately RMB7,330.823 million at the end of 2019. The borrowings comprised secured loans of approximately RMB4,413.440 million and unsecured loans of approximately RMB4,303.706 million. The borrowings are denominated in HK\$, RMB, US\$ and NZ\$. Approximately 48% and 52% of the borrowings are at fixed rate and variable rate, respectively.

## **Foreign Exchange Exposure**

The majority of the Group's sales, purchase and operating expenses were denominated in US\$, HK\$, RMB and NZ\$. Although the Group has been and will continue to be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The management will continue to monitor the foreign exchange exposure flexibly and engage in timely and appropriate hedging activities when needed.

## **Pledge of Assets**

As at 31 December 2020, the guarantees of certain banking facilities of the Group included certain proceeds under the Group's service franchise arrangement, bank balances of RMB3.017 million, and land lease payments and buildings of RMB96.176 million.

Pledged bank deposits RMB39.477 million for service concession arrangements were required by the local governments for securing the progress of certain BOT projects.

Bank balance RMB7.698 million was pledged in respect of the lawsuit relating to the payment condition for the consideration of the service concession right.

## **Commitment Arrangements**

As at 31 December 2020, the Group had commitment of approximately RMB1,773.273 million, RMB28.121 million and RMB153.896 million in respect of the construction work under service concession arrangements, capital contribution in associates and acquisition of property, plant and equipment respectively, which were contracted but not provided for in the consolidated financial statements.

## **Contingent Liabilities**

As at 31 December 2020, the Group provided guarantees of approximately RMB377.207 million to the government institutions of New Zealand in respect of the continuous operation or the fulfillment of operation standards of the landfill sites.

## **Employee Information**

As at 31 December 2020, the Group had about 4,847 employees in total, stationed mainly in Mainland China, Hong Kong and New Zealand. The Group's emolument policies, which are reviewed periodically, are linked to the performance of individual employees and are based on the salary trends prevailing in the aforesaid regions.

## **DIVIDEND**

The Board does not recommend the payment of final dividend for the year ended 31 December 2020 (for the year ended 31 December 2019: nil).

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code for dealing in securities of the Company by the directors of the Company. The Company has made specific enquires of all its directors regarding any noncompliance with the Model Code, and all directors of the Company confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2020.

## **CORPORATE GOVERNANCE PRACTICES**

The Board believes that high standards of corporate governance are essential to the success of the Company and is committed to maintain a high level of corporate governance standards and practices. The Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules during the year under review.

## **REVIEW OF ACCOUNTS**

The audit committee of the Company has reviewed the Group's consolidated financial statements for the year ended 31 December 2020, including the accounting principles and practices adopted by the Group.

## **SCOPE OF WORK OF ERNST & YOUNG ON THE PRELIMINARY ANNOUNCEMENT**

The figures set out in the preliminary announcement of the Group's results for the year ended 31 December 2020 in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and their related notes have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

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

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

This annual results announcement will be published on both the websites of the Company ([www.cehl.com.hk](http://www.cehl.com.hk)) and of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The annual report of the Company for the year ended 31 December 2020 will be dispatched to shareholders and published on the aforesaid websites in due course.

By order of the Board of  
**Capital Environment Holdings Limited**  
**Cao Guoxian**  
*Chairman*

Hong Kong, 22 March 2021

*As at the date of this announcement, the Board comprises four executive directors, namely Mr. Cao Guoxian, Mr. Li Fujing, Ms. Hao Chunmei and Mr. Xiao Yukun; and three independent non-executive directors, namely, Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen and Dr. Chan Yee Wah, Eva.*