



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
2022



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Wang Dianchang

Independent Non-executive Directors

Mr. Shea Chun Lok Quadrant
Mr. Zhang Gaobo
Mr. Guo Rui
Mr. Chau On Ta Yuen
Mr. Dai Xiaohu

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Zhang Gaobo (*Chairman*)
Mr. Guo Rui
Mr. Tung Woon Cheung Eric

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric

AUDITORS

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

STOCK CODE

371

WEBSITE

www.bewg.net

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31 Victoria Street
Hamilton HM 10
Bermuda

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Wanchai
Hong Kong
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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
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

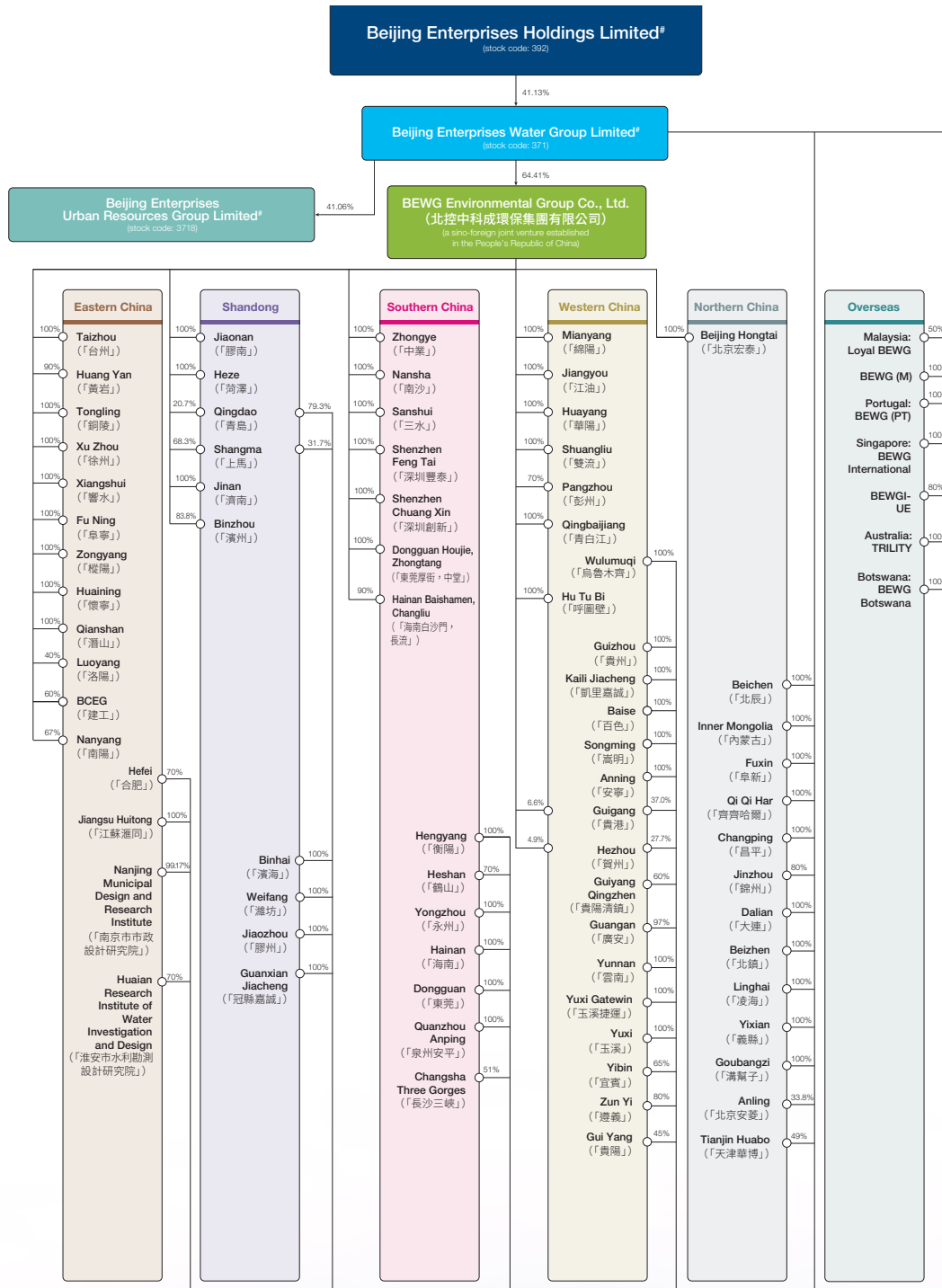
PRINCIPAL BANKERS

In Hong Kong:
Agricultural Bank of China Limited Hong Kong Branch
Bank of China (Hong Kong) Limited
Bank of Communications Co., Limited
DBS Bank Ltd., Hong Kong Branch
Industrial and Commercial Bank of China (Asia) Limited
Oversea-Chinese Banking Corporation Limited
Hong Kong Branch

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

GROUP STRUCTURE

31 December 2022



* 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,

Being a pillar industry in the national strategy, the ecological and environmental protection industry took on a key supportive and protective role in the prevention and control of environmental pollution, the achievement of carbon peak and carbon neutrality as well as the green transition of the whole economy and society in 2022. Beijing Enterprises Water Group Limited (the “Company” and, together with its subsidiaries, collectively referred to as the “Group” or “BEWG”) enshrined the principle of stability and upheld the operational objective of “customer orientation through innovation capability” by focusing on implementing its established strategies, defining its business lines, carrying out structural initiatives, and improving its overall operational efficiency. With a steady transformation towards the asset-light model, better revenue and profit structures as well as improving cash flows, the Group has laid a solid foundation for its high-quality and sustainable development.

PERFORMANCE REVIEW

For the twelve months ended 31 December 2022, the Group achieved the total daily design capacity of 44,287,093 tons. Revenue for the year was HK\$24,982,372,000, which decreased by 10% year-on-year. Total profit attributable to shareholders of the Company amounted to HK\$1,374,151,000, which decreased by 67% year-on-year. Basic earnings per share for the year was HK13.18 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 dividend of HK8.7 cents per share to the shareholders.

Due to restrictions on personal and inter-city travels, business expansion efforts and the construction of projects were hindered to a certain extent during the year. Nevertheless, the operation of the Group’s water plants was intact. To fulfil its social responsibility, the Group continued to safeguard staff and production safety while ensuring that water output from its water plants was stable and met required standard. Revenue from sewage and reclaimed water treatment services provided in the People’s Republic of China (the “PRC” or “Mainland China”) grew by over 20%.

In view of the new requirements of the 14th Five-Year Plan, the Carbon Peak and Carbon Neutrality goals as well as high-quality development, urban water service development has advanced from the initial stage of establishment to the second stage of refinement, which will certainly lead to inward quality improvement of the environmental industry. To seize opportunities in the market, the Group has, on one hand, strategically identified water services (including urban sewage treatment), “plant and network integration”, reclaimed water treatment and sludge treatment as the major targets in its search for large-scale assets, while, on the other hand, pursuing multi-sector expansion and incubating new business lines, with the aim of creating a new business model with synergies and coordinated development.

CHAIRMAN'S STATEMENT

To genuinely, effectively and consistently implement its customer-oriented operational objective, the Group has established 58 regional organizations and quasi-regional organizations during the year in order to define its regional corporate structure in a clear manner and establish regional organizations at the right place. It aims at providing long-term quality services to its customers, earning their trust, building brand influence, and hence maintaining business growth, by strengthening four core abilities, namely cultivating existing business, nurturing customers, understanding products and identifying opportunities.

The Group insists on placing equal values on light and heavy assets, keeping the expenditure within the limits of revenues and growing at a steady pace. Urban sewage treatment is the core business of the Group. With years of excellent business track record, strong brand influence and amicable customer relations, the Group secured new water service contracts involving a daily water volume of 3,414,442 tons during the year, penetrated regional markets and achieved incremental growth based on its economies of scale. It has actively broadened its acquisitions and mergers of water companies, attracting a team of water service professionals, strengthening the management structure of the water supply business, building up its water supply capacity in a systematic manner, and enhancing the efficiency of its water supply business.

According to the Implementation Plan for the Decontamination Treatment and Resource Reutilisation of Sludge (《污泥無害化處理和資源化利用實施方案》) issued jointly by the National Development and Reform Commission, the Ministry of Housing and Urban-Rural Development and the Ministry of Ecology and Environment, a sludge decontamination treatment and resource reutilisation system with comprehensive facilities, safe, environmentally-friendly and low-carbon operation, and effective monitoring shall be basically in place across the nation by 2025. With sludge treatment being one of its focus for long-term development, BEWG broadened its strategic co-operation with Linyi City, Shandong Province in the fields of sewage and sludge treatment, and won the sludge treatment project in Junan County during the year by fully capitalising on years of technological innovation and application as well as synergies with its existing water plants.

The Guiding Opinions on Accelerating the Construction of Urban Environmental Infrastructure (《關於加快推進城鎮環境基礎設施建設的指導意見》) issued by the National Development and Reform Commission, the Ministry of Ecology and Environment, the Ministry of Housing and Urban-Rural Development and the National Health Commission sets out clear requirements for comprehensive sewage collection, treatment and reutilisation facilities with the aims of accelerating full coverage of sewage drainage networks across cities and towns and promoting domestic sewage collection and treatment plant and network integration. Leveraging the distinct characteristics and economies of scale of its network, the Group has made plant and network integration one of the focal points of its pipe network business. It won contracts for projects in, among other places, Zaozhuang, Baise, Haicheng and Zoucheng, and improved the quality of its urban sewage treatment operations during the year. With respect to the reclaimed water business, it focused on projects for industrial parks that provide stable revenue with an increase in reclaimed water treatment capacity of approximately 1.36 million tons per day during the year.

Regarding its overseas businesses, the Group responded proactively to the complicated international conditions and made every effort to ensure the steady advancement of production and operation activities while continuously expanding its market coverage by launching business in Saudi Arabia and other countries.

CHAIRMAN'S STATEMENT

Beijing Enterprises Urban Resources Group Limited (“BEURG”), a subsidiary of the Group listed on the main board of the Stock Exchange (stock code: 3718), is a professional company that principally engages in the provision of hazardous waste treatment and environmental hygiene services. Being the major operating entity of the Group’s environmental hygiene business, BEURG refined its mission, vision and value to “improve the living environment”, and strove to become a trusted and leading operator of intelligent municipal services in the industry. It successfully ensured the smooth proceeding of the Beijing Winter Olympics during the year by formulating an intelligent waste disposal and environmental hygiene management system based on the “Green Olympics” philosophy that fulfilled the requirements of the Winter Olympics. This system was highly appraised by all parties involved in holding the games. In 2022, BEWG and BEURG implemented their strategic plan to consolidate their financial statements and make concerted effort to carry out coordinated development. As such, they obtained projects in Feicheng and Ningjin with the aim of creating a beautiful urban and rural environment. During the year, the “urban keeper” business realised the highest contract sum across the industry and became one of the top 100 enterprises in the PRC cleaning service industry during the year.

CORPORATE MANAGEMENT AND CONTROL

The “14th Five-Year Plan” of the PRC requires the implementation of a sustainable development strategy to push forward the green transition of the whole economy and society and construct a beautiful China. Guided by the requirements of the national strategy and driven by customers’ needs, the Group has built a strategic consensus to concentrate on its organisational capacity, carry out operational upgrades and lay the solid foundation for its further growth in a systematic manner.

With respect to the “customer orientation” objective, the Group has pushed through its organisational restructuring to shift its focus back to the nature of the environmental business as a service industry. The marketing procedures were streamlined based on the chain of “leads – opportunities – projects”, while a marketing-oriented investment model was adopted to regulate marketing activities. Being strategically laser-focused on “quick turnover and high quality”, the Group redesigned its business delivery procedures so as to establish an “end-to-end” operating system, which is the first of its kind in the industry. To guide the operation towards quality improvement, it accumulated expertise and built an excellent operation and service brand through the operation of its large-scale assets. An “asset management + intelligent operation” two-pronged system was established in order to refine the asset management system, improve the compliance level of the assets and enhance business and asset management capability. The pre-intervention mechanism in the operation system was revamped with the aim of effectively developing synergies between different business lines and advancing the construction of standardised water plants so as to facilitate continuous upgrades of the intelligent operating model.

As the real estate market shrank, the financial position and spending power of some local governments were adversely affected. To control related risks, the Group has maintained adequate cash reserve, strengthened the control of its accounts receivable, broadened its financing channels, devised a multimodal cash collection mechanism, optimised fund allocation and budgeting, and further improved its cash utilisation efficiency. Through upgrading the sharing system and optimising the operating procedures, it continued to construct the financial shared system, which was granted the “Best Shared Service Platform Award” in the 2022 China Treasury Awards.

CHAIRMAN'S STATEMENT

SUSTAINABLE DEVELOPMENT

BEWG always cares about the expectations of its stakeholders, lays stress on the demand of its customers and aims at fulfilling it. BEWG is integrating data and digital technologies into its corporate development to construct a corporate data base and management system and also establishing a comprehensive, continuous, sustainable and innovative mechanism to build up its corporate technological and core competitive strength so as to edge out through product and service differentiation, incubate new business ventures, and support its transition to asset-light and sustainable development strategies. Internally, it will transform itself into a highly agile and self-rejuvenating organic enterprise. Externally, it will establish a multi-centered eco-system and a community of water and environmental service providers with a shared future.

Guided by its digitalisation strategy, the Group constantly develops smart water services and upgrades its applications and also improves its operational efficiency by embarking on projects to construct digitalised operation and management systems. In 2022, the Group established a system to evaluate the maturity of its operations, a system to manage information security, as well as a platform to conduct and manage digitalisation research and development projects. A group company, 北京北控悅慧環境科技有限公司, was proudly recognised as a professional, refined, distinctive and innovative “Little Mogul (小巨人)” and a “Professional, Refined, Distinctive and Innovative” small and medium enterprise by the Beijing municipal government.

The Group actively promotes technological innovation and practical applications with an aim of developing new environmental protection business lines. It drives technological and model innovations with a comprehensive innovation appraisal and motivation system. By building up customer-oriented technological project innovation ability and promoting the applications of the results of scientific researches, two technology products, namely “BEAOA” and “BEWG speedgrain (北控速粒)”, were unveiled during the year. Under the guidance of its ecological strategy, the Group makes full use of its leadership position and resources in the industry to proactively encourage cooperation and construct a mutually beneficial, win-win and harmonic industrial ecosystem that fosters mutual cooperation. During the year, Bescient Technologies Co., Ltd. (碧興物聯科技(深圳)股份有限公司) was evaluated and approved by the listing committee of the Science and Technology Innovation Board of the Shanghai Stock Exchange on 20 December 2022. It is an associate incubated by an investment fund, which was jointly established by the Group as one of the promoters and focuses on the energy conservation and environmental protection sectors powered by technological innovation.

The Group cares about the expectations of all stakeholders. Adhering to its “customer-oriented and innovation-driven” operation philosophy, the Group has established a high-quality customer communication system that provides diversified service channels. As to suppliers, it stringently reviewed its supplier selection system in order to strengthen its control over the whole supplier chain based on its collaboration and win-win objectives. Putting emphasis on nurturing talent, it has established an accurate key position identification model based on its business needs, launched a systematic talent grooming programme, and kept perfecting its human resource management system with the aim of cementing the talent pool for its corporate development.

CHAIRMAN'S STATEMENT

In active response to the nation's "3060" carbon peak and carbon neutrality strategy, the Group continued to follow an "Green Priority and Carbon Reduction with Efficiency Improvement" development concept, step up its investment in the research and development of new low-carbon technologies, perfect its low-carbon operation management measures, explore its full carbon reduction potential, and guide the water service industry through low-emission and low-carbon transformation.

FUTURE PROSPECT

Year of 2023 marks the beginning of the time to fully implement the party's aspirations stated at the 20th National Congress of the Chinese Communist Party. The party's report presented at the congress pointed out that the respect for, adaptation to and protection of the nature are intrinsic needs of the nation in building a modern socialist country, and that the concept of "lucid waters and lush mountains are invaluable assets" must be stringently followed and implemented in planning the high-level harmonic and symbiotic development of mankind and the nature. The Group will acquire and manage more large-scale assets, create new business lines with technological and model innovation, improve its operational efficiency, secure high-quality and sustainable development, and strive for its vision of "becoming the world-class provider of reliable and leading water services and environmental services".

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

Xiong Bin

Chairman

30 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year attributable to shareholders of the Company decreased by 67% to HK\$1,374.2 million. Revenue decreased by 10% to HK\$24,982.4 million as a result of decrease in revenue contribution from 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	9,388.3	38%	57%	3,971.0	
– Joint ventures and associates				258.7	
				4,229.7	57%
Overseas					
– Subsidiaries	485.4	2%	20%	54.8	1%
	9,873.7	40%		4,284.5	58%
Water distribution services					
China					
– Subsidiaries	2,576.6	10%	48%	766.5	10%
– Joint ventures				190.5	3%
				957.0	13%
Overseas					
– Subsidiaries	513.2	2%	32%	119.8	2%
– Joint ventures				25.8	–
				145.6	2%
	3,089.8	12%		1,102.6	15%
Subtotal	12,963.5	52%		5,387.1	73%

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% ⁵	1,458.9	6%	16%	207.6	3%
– Interest income	–	–	–	478.3	6%
	1,458.9	6%	16%	685.9	9%
Construction of BOT water projects	4,626.1	18%	18%	617.3	8%
Subtotal	6,085.0	24%		1,303.2	17%
3. Technical services and sale of machineries for the water environmental renovation	3,393.3	14%	40%	653.7	9%
4. Urban resources services[^]	2,540.6	10%	20%	48.1	1%
Business results	24,982.4	100%		7,392.1	100%
Others[#]				(6,017.9)	
Total				1,374.2	

[#] Others included head office expense and other cost, net, of HK\$1,623.1 million, loss on deemed disposal of partial interest in an associate of HK\$1,091.0 million, share of profit of joint ventures and associates of HK\$102.1 million, share award expenses of HK\$42.5 million, finance costs of HK\$3,192.6 million and profit attributable to holders of perpetual capital instruments of HK\$170.8 million. Others represented items that cannot be allocated to the operating segments.

⁵ Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$241.4 million.

[^] Revenue and profit attributable to shareholders of the Company represented the business results from urban resources services for the period from the date of consolidation to 31 December 2022. The profit from this business before consolidation is included in share of profit of associates under "Others".

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
1. Water treatment services					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	7,674.1	27%	58%	3,317.9	
– Joint ventures and associates				383.0	
				3,700.9	44%
Overseas					
– Subsidiaries	471.0	2%	23%	69.0	1%
	8,145.1	29%		3,769.9	45%
Water distribution services					
China					
– Subsidiaries	2,526.0	9%	48%	705.9	8%
– Joint ventures				149.2	2%
				855.1	10%
Overseas					
– Subsidiaries	543.1	2%	34%	127.2	2%
– Joint ventures				26.0	–
				153.2	2%
	3,069.1	11%		1,008.3	12%
Subtotal	11,214.2	40%		4,778.2	57%

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% ⁵	3,071.4	11%	26%	749.2	9%	
– Interest income	–	–	–	450.9	6%	
	3,071.4	11%	26%	1,200.1	15%	
Construction of BOT water projects	9,533.2	34%	18%	1,191.8	14%	
Subtotal	12,604.6	45%		2,391.9	29%	
3. Technical services and sale of machineries for the water environmental renovation						
	4,061.3	15%	49%	1,151.4	14%	
Business results	27,880.1	100%		8,321.5	100%	
Others[#]				(4,125.6)		
Total				4,195.9		

[#] Others included head office expense and other cost, net, of HK\$1,196.6 million, share of profit of joint ventures and associates of HK\$38.7 million, share award expenses of HK\$37.5 million, finance costs of HK\$2,718.7 million and profit attributable to holders of perpetual capital instruments of HK\$211.5 million. Others represented items that cannot be allocated to the operating segments.

⁵ Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$264.1 million.

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the year ended 31 December 2022 and 2021 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	2022 <i>HK\$'M</i>	2021 <i>HK\$'M</i>	Increase/(Decrease) <i>HK\$'M</i>	%	2022 <i>HK\$'M</i>	2021 <i>HK\$'M</i>	Increase/(Decrease) <i>HK\$'M</i>	%
1. Water treatment services								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	9,388.3	7,674.1	1,714.2	22%	3,971.0	3,317.9	653.1	20%
– Joint ventures and associates					258.7	383.0	(124.3)	(32%)
					4,229.7	3,700.9	528.8	14%
<i>GP ratio</i>	57%	58%		(1%)				
Overseas								
– Subsidiaries	485.4	471.0	14.4	3%	54.8	69.0	(14.2)	(21%)
<i>GP ratio</i>	20%	23%		(3%)				
	9,873.7	8,145.1	1,728.6	21%	4,284.5	3,769.9	514.6	14%
Water distribution services								
China								
– Subsidiaries	2,576.6	2,526.0	50.6	2%	766.5	705.9	60.6	9%
– Joint ventures					190.5	149.2	41.3	28%
					957.0	855.1	101.9	12%
<i>GP ratio</i>	48%	48%		–				
Overseas								
– Subsidiaries	513.2	543.1	(29.9)	(6%)	119.8	127.2	(7.4)	(6%)
– Joint ventures					25.8	26.0	(0.2)	(1%)
					145.6	153.2	(7.6)	(5%)
<i>GP ratio</i>	32%	34%		(2%)				
	3,089.8	3,069.1	20.7	1%	1,102.6	1,008.3	94.3	9%
Subtotal	12,963.5	11,214.2	1,749.3	16%	5,387.1	4,778.2	608.9	13%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the year ended 31 December 2022 and 2021 is set out in details below: *(Continued)*

	Revenue				Profit attributable to shareholders of the Company			
	2022 HK\$'M	2021 HK\$'M	Increase/(Decrease) HK\$'M	%	2022 HK\$'M	2021 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%	1,458.9	3,071.4	(1,612.5)	(53%)	207.6	749.2	(541.6)	(72%)
– Interest income	–	–	–	–	478.3	450.9	27.4	6%
	1,458.9	3,071.4	(1,612.5)	(53%)	685.9	1,200.1	(514.2)	(43%)
<i>GP ratio</i>	16%	26%		(10%)				
Construction of BOT water projects								
– China	4,626.1	9,533.2	(4,907.1)	(51%)	617.3	1,191.8	(574.5)	(48%)
<i>GP ratio</i>	18%	18%		–				
Subtotal	6,085.0	12,604.6	(6,519.6)	(52%)	1,303.2	2,391.9	(1,088.7)	(46%)
3. Technical services and sale of machineries for the water environmental renovation								
	3,393.3	4,061.3	(668.0)	(16%)	653.7	1,151.4	(497.7)	(43%)
<i>GP ratio</i>	40%	49%		(9%)				
4. Urban resources services								
	2,540.6	–	2,540.6	–	48.1	–	48.1	–
<i>GP ratio</i>	20%	–		–				
Business results	24,982.4	27,880.1	(2,897.7)	(10%)	7,392.1	8,321.5	(929.4)	(11%)
Others					(6,017.9)	(4,125.6)	(1,892.3)	46%
Total					1,374.2	4,195.9	(2,821.7)	(67%)

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 4 municipalities all across Mainland China.

2.1 Water treatment services

As at 31 December 2022, the Group entered into service concession arrangements and entrustment agreements for a total of 1,447 water plants and town-size sewage treatment facilities including 1,196 sewage treatment plants and town-size sewage treatment facilities, 180 water distribution plants, 70 reclaimed water treatment plants and a seawater desalination plant. Total daily design capacity for new projects secured for the year was 3,414,442 tons including Build-Operate-Transfer (“BOT”) projects of 1,355,000 tons, Transfer-Operate-Transfer (“TOT”) projects of 670,000 tons, Public-Private Partnership (“PPP”) projects of 130,000 tons, Build-Own-Operate (“BOO”) projects of 25,934 tons and entrustment operation projects of 1,233,508 tons.

Due to different reasons such as expiration of entrustment operation projects, the Group exited projects with aggregate daily design capacity of 578,364 tons during the year. As such, the net increase in daily design capacity of the year was 2,836,078 tons and total daily design capacity was 47,722,040 tons. Due to change in project plan, the Group reduce the daily design capacity of 3,434,947 tons for long-term projects which has not yet been invested. As at 31 December 2022, total daily design capacity was 44,287,093 tons.

During the year, the Group entered into 5 service concession arrangement for town-size sewage treatment projects with aggregate daily capacity of 40,620 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	18,517,545	2,193,488	9,708,442	–	30,419,475
Not yet commenced operation/ Not yet transferred	5,852,450	2,237,600	3,912,500	–	12,002,550
Subtotal	24,369,995	4,431,088	13,620,942	–	42,422,025
Overseas					
In operation	230,518	267,350	1,067,200	300,000	1,865,068
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	230,518	267,350	1,067,200	300,000	1,865,068
Total	24,600,513	4,698,438	14,688,142	300,000	44,287,093
<i>(Number of water plants and town-size sewage treatment facilities)</i>					
China					
In operation	917	41	122	–	1,080
Not yet commenced operation/ Not yet transferred	231	24	24	–	279
Subtotal	1,148	65	146	–	1,359
Overseas					
In operation	48	5	34	1	88
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	48	5	34	1	88
Total	1,196	70	180	1	1,447

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

	Number of plants and town-size sewage treatment facilities	Design capacity <i>(Tons/Day)</i>	Actual processing volume during the year* <i>(Tons (M))</i>	Revenue <i>(HK\$'M)</i>	Profit attributable to shareholders of the Company <i>(HK\$'M)</i>
Sewage and reclaimed water treatment services:					
Mainland China:					
– Southern China	331	4,320,555	1,402.0	2,169.3	887.0
– Western China	317	2,617,990	764.0	1,821.8	816.0
– Shandong	53	2,557,000	709.9	1,325.8	644.8
– Eastern China	133	6,045,076	1,597.7	2,040.1	840.5
– Northern China	124	5,170,412	1,220.6	2,031.3	1,041.4
	958	20,711,033	5,694.2	9,388.3	4,229.7
Overseas	53	497,868	108.4	485.4	54.8
Subtotal	1,011	21,208,901	5,802.6	9,873.7	4,284.5
Water distribution services:					
Mainland China	122	9,708,442	2,080.2	2,576.6	957.0
Overseas ⁵	35	1,067,200	140.8	513.2	145.6
Subtotal	157	10,775,642	2,221.0	3,089.8	1,102.6
Total	1,168	31,984,543	8,023.6	12,963.5	5,387.1

* Excluded entrustment operation contracts

⁵ 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 2022, the Group had 917 sewage treatment plants and town-size sewage treatment facilities and 41 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and town-size sewage treatment facilities and reclaimed water plants reached to 18,517,545 tons (31 December 2021: 16,831,055 tons) and 2,193,488 tons (31 December 2021: 1,689,200 tons), respectively. The average daily processing volume is 15,882,979 tons* and average daily treatment rate is 80%*. The actual average contracted tariff charge of water treatment was approximately RMB1.47 per ton (31 December 2021: RMB1.39 per ton) for water plants. The actual aggregate processing volume for the year was 5,694.2 million tons, of which 5,156.4 million tons was contributed by subsidiaries and 537.8 million tons was contributed by joint ventures and associates. Total revenue for the year was HK\$9,388.3 million. Net profit attributable to shareholders of the Company was HK\$4,229.7 million, of which HK\$3,971.0 million was contributed by subsidiaries and HK\$258.7 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 2022, there were 331 plants and town-size sewage treatment facilities with total daily design capacity of 4,320,555 tons, representing an increase of 179,965 tons or 4% as compared with last year. The actual aggregate processing volume for the year amounted to 1,402.0 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$2,169.3 million and HK\$887.0 million respectively during the year.

* Excluded entrustments operation contracts



MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

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

2.1.1a Mainland China: *(Continued)*

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 31 December 2022, there were 317 sewage treatment plants and town-size sewage treatment facilities with total daily design capacity of 2,617,990 tons, representing an increase of 145,740 tons per day or 6% as compared with last year. The actual processing volume for the year was 764.0 million tons. The operating revenue of HK\$1,821.8 million was recorded during the year. Profit attributable to shareholders of the Company amounted to HK\$816.0 million.

Shandong

There were 53 plants and town-size sewage treatment facilities in Shandong region. The total daily design capacity of Shandong region is 2,557,000 tons, representing an increase of 298,000 tons per day or 13% as compared with last year. The actual processing volume for the year was 709.9 million tons contributing operating revenue of HK\$1,325.8 million during the year. Profit attributable to shareholders of the Company was HK\$644.8 million.

Eastern China

There were 133 water plants and town-size sewage treatment facilities in Eastern China which were mainly located in Zhejiang Province, Jiangsu Province, Henan Province and Anhui Province. As at 31 December 2022, the total daily design capacity of Eastern China had increased by 763,300 tons to 6,045,076 tons or 14% as compared with last year. The actual processing volume for the year amounted to 1,597.7 million tons and operating revenue was HK\$2,040.1 million during the year. Profit attributable to shareholders of the Company was HK\$840.5 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)*

2.1.1a Mainland China: *(Continued)*

Northern China

Currently, the Group has 124 plants and town-size sewage treatment facilities under operation in Northern China. They are mainly located in Liaoning Province and Beijing. The daily design capacity of Northern China had increased by 803,773 tons to 5,170,412 tons or 18% as compared with last year. The projects achieved actual processing volume of 1,220.6 million tons for the year. The operating revenue was HK\$2,031.3 million during the year. Profit attributable to shareholders of the Company was HK\$1,041.4 million.

2.1.1b Overseas:

As at 31 December 2022, the Group had 48 sewage treatment plants and 5 reclaimed water plants in Portugal, Singapore, Australia and New Zealand. Total daily design capacity in operation was 497,868 tons. The actual processing volume for the year is 108.4 million tons. Total revenue for the year was HK\$485.4 million. Profit attributable to shareholders of the Company was HK\$54.8 million.

2.1.2 Water distribution services

2.1.2a Mainland China:

As at 31 December 2022, the Group had 122 water distribution plants in operation. Total daily design capacity in operation was 9,708,442 tons (31 December 2021: 9,372,836 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 RMB2.13 per ton (31 December 2021: RMB2.10 per ton). The aggregate actual processing volume is 2,080.2 million tons, of which 1,162.7 million tons was contributed by subsidiaries, which recorded revenue of HK\$2,576.6 million and 917.5 million tons was contributed by joint ventures. Profit attributable to shareholders of the Company was HK\$957.0 million, of which profit of HK\$766.5 million was contributed by subsidiaries and a profit of HK\$190.5 million in aggregate was contributed by joint ventures.

MANAGEMENT DISCUSSION AND ANALYSIS

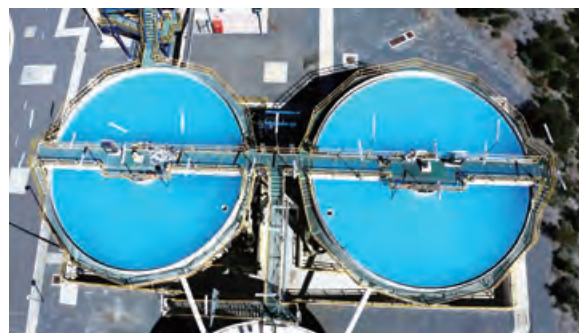
2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.2 Water distribution services *(Continued)*

2.1.2b Overseas:

As at 31 December 2022, 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 1,067,200 tons. The actual processing volume for the year is 140.8 million tons of which 83.4 million tons was contributed by subsidiaries and 57.4 million tons was contributed by joint ventures. Total revenue for the year was HK\$513.2 million. Profit attributable to shareholders of the Company was HK\$145.6 million.



2.2 Construction services for the water environmental renovation

2.2.1 Construction services for comprehensive renovation projects

The Group had 17 comprehensive renovation projects under construction during the year. The projects mainly located in Chengdu Jianyang and Inner Mongolia. Last year, the Group had 20 comprehensive renovation projects under construction in Sichuan Luzhou, Chengdu Jianyang, Inner Mongolia and Zhejiang Hangzhou.

Revenue from comprehensive renovation projects decreased by HK\$1,612.5 million from last year of HK\$3,071.4 million to HK\$1,458.9 million this year.

According to the construction contracts, the Group charges an interest on the trade receivables from the customers with reference to certain mark-up on The People's Bank of China's lending rate for the period 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\$478.3 million for this year (31 December 2021: HK\$450.9 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects decreased by HK\$514.2 million from last year of HK\$1,200.1 million to HK\$685.9 million this year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

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

2.2.1 Construction services for comprehensive renovation projects *(Continued)*

The Group had already stopped investing in water environmental comprehensive renovation projects. With the gradual completion of the construction of water environmental renovation projects in hand or entering into the final stage of construction works, thus, there was a decrease year by year in the construction revenue contributed by these projects. In addition, a number of construction projects could only maintain limited operations during the year. As such, there is a decrease in profit attributable to shareholders of the Company from construction services for the water environmental renovation.



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 Guangdong, Shandong, Guangxi, Hunan, Shanxi and Liaoning provinces. Total revenue for construction of BOT water projects was HK\$4,626.1 million (31 December 2021: HK\$9,533.2 million) and profit attributable to shareholders of the Company was HK\$617.3 million (31 December 2021: HK\$1,191.8 million). During the year, construction works in several construction sites could only maintain limited operation. As such, there was a decrease in revenue and profit attributable to shareholders of the Company during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

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

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

Revenue from the provision of technical services and sales of machineries was HK\$3,393.3 million (31 December 2021: HK\$4,061.3 million), representing 14% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$653.7 million (31 December 2021: HK\$1,151.4 million). The decrease in revenue and profit attributable to shareholders of the Company was mainly due to the travel restrictions in China during the year which hinder the development of new technical services project.

2.4 Urban resources services

From 30 June 2022 onwards, the Group consolidated the results of Beijing Enterprises Urban Resources Group Limited ("BEURG"). BEURG is principally engaged in environmental hygiene services, hazardous waste treatment business and waste electrical and electronic equipment treatment business. As at 31 December 2022, BEURG had 152 environmental hygiene services projects, 9 hazardous waste treatment projects in operation and 2 revenue-generating waste electrical and electronic equipment treatment projects. From the commencement date of consolidation to 31 December 2022, BEURG's revenue was HK\$2,540.6 million. The net profit attributable to the Group from the commencement date of consolidation to 31 December 2022 was HK\$48.1 million. From 1 January 2022 to the commencement date of consolidation, the share of profit of BEURG was HK\$43.1 million which was recognized under the share of profit of associates.

3. FINANCIAL ANALYSIS

3.1 Revenue

During the year, the Group recorded revenue of HK\$24,982.4 million (31 December 2021: HK\$27,880.1 million). The decrease was mainly due to the decrease in revenue from construction services for the water environmental renovation.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.2 Cost of sales

Cost of sales for the year amounted to HK\$15,144.4 million, compared to last year of HK\$17,430.5 million. The decrease was mainly due to the decrease in cost of construction services rendered of HK\$5,111.3 million. Cost of sales mainly included construction costs of HK\$4,968.5 million and operating costs of water plants of HK\$6,131.9 million. The construction costs mainly consisted of subcontracting charges. The operating costs of water plants, mainly included electricity charges of HK\$1,380.9 million, staff costs of HK\$1,613.8 million and major overhaul charges of HK\$296.7 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 increased from last year of 37% to 39%. Gross margin increased as there is a change in mix of revenue during this year. The proportion of revenue contribution from water treatment services increased as compared with construction services for the water environmental renovation. The gross margin of water treatment services is comparatively higher than the construction services for the water environmental renovation.

Gross margin for sewage and reclaimed water treatment services:

Gross margin for sewage and reclaimed water treatment services in Mainland China was slightly decreased to 57% (last year: 58%). The slight decrease in gross margin was mainly due to increment in cost of raw materials (e.g. chemicals) and electricity charges during this year. Gross margin for sewage and reclaimed water treatment services in Overseas was 20% (last year: 23%). Gross margin in Overseas decreased which was mainly due to increase in electricity charges in Singapore during the year.

Gross margin for water distribution services:

Gross margin for water distribution services in Mainland China was 48% (last year: 48%). Gross margin for water distribution services in Overseas was 32% (last year: 34%). Gross margin in Overseas decreased which was mainly due to (1) a flooding in South Australia which affected the water quality and therefore increased the cost of chemical for water treatment; and (2) increase in electricity charges in Portugal during this year.

Gross margin for construction services for comprehensive renovation projects:

Gross margin for construction services for comprehensive renovation projects was 16% (last year: 26%). Gross margin decreased as the major comprehensive renovation projects for this year have a relatively lower average 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 18% (last year: 18%).

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

Gross margin for the technical services and sale of machineries for the water environmental renovation was 40% (last year: 49%). Gross margin decreased was mainly due to the change in mix of revenue during this year. The proportion of revenue contribution from technical services decreased as compared with the sale of machineries for the water environmental renovation. The gross margin of technical services is comparatively higher than the sale of machineries for the water environmental renovation.

Gross margin for urban resources services:

Gross margin for urban resources services was 20%.

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$1,488.3 million during the year, compared to last year of HK\$1,248.5 million. The amount for this year mainly included sludge treatment income of HK\$145.7 million, pipeline installation income of HK\$307.2 million, gain on bargain purchase of subsidiaries (mainly from consolidation of BEURG) of HK\$186.7 million and government grant and subsidies of HK\$244.3 million.

3.5 Administrative expenses

Administrative expenses for the year increased to HK\$3,457.3 million, compared to last year of HK\$3,158.4 million. The increase was mainly due to the increase in staff related expenses as result of business expansion and consolidation of BEURG during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.6 Other operating expenses, net

Other operating expenses for the year increased to HK\$2,783.4 million, compared to last year of HK\$905.6 million. The increase was mainly due to (1) loss on deemed disposal of partial interest in an associate, Shandong Hi-Speed New Energy Group Limited (“SDHS New Energy”) (formerly known as Beijing Enterprises Clean Energy Group Limited”), amounted to HK\$1,091.0 million in current year. On 19 May 2022, SDHS New Energy issued and allotted 48,804,039,247 new shares to Profit Plan Global Investment Limited. Accordingly, the Company’s indirect shareholding percentage in SDHS New Energy was diluted from 31.88% to approximately 18.03%. Under the *Hong Kong Accounting Standard 28 – Investments in Associates and Joint Ventures*, the Group recognised a deemed disposal loss as a result of such dilution; and (2) loss on remeasurement of an associate, BEURG, amounted to HK\$173.0 million before consolidation of BEURG as a subsidiary of the Group. The deemed disposal loss of an associate and loss on remeasurement of an associate are one-off and non-cash in nature. It does not have any impact on the cashflow of the Group.

3.7 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK\$2,377.2 million (31 December 2021: HK\$1,912.0 million) and interests on corporate bonds and notes payable of HK\$896.2 million (31 December 2021: HK\$953.0 million).

3.8 Share of profits of joint ventures

Share of profits of joint ventures decreased to HK\$652.0 million, compared to last year of HK\$861.7 million. The decrease was mainly due to decrease in share of profits of the joint ventures which engaged in water treatment services and technical services and sale of machineries for the water environmental renovation.

3.9 Share of profits of associates

Share of profits of associates increased to HK\$121.8 million, compared to last year of HK\$58.1 million. The increase was mainly due to increase in share of profits of SDHS New Energy.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.10 Income tax expense

Income tax expense for the year included the current PRC income tax of HK\$739.8 million. The effective tax rate for the PRC operation was about 18% 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\$297.3 million.

3.11 Profit attributable to holders of perpetual capital instruments

Amount represented the coupon payments of perpetual bonds with an aggregate principal amount of RMB2,500 million which were issued in Year 2021.

3.12 Property, plant and equipment

Property, plant and equipment increased by HK\$3,754.9 million which was mainly due to consolidation of BEURG in current year.

3.13 Right-of-use assets

Right-of-use assets increased by HK\$385.7 million which was mainly due to consolidation of BEURG in current year.

3.14 Investment properties

Investment property represented a portion of a building located in Beijing which the Group held to earn rental income during the year. The investment property was stated at fair value. Decrease was mainly due to reclassification to property, plant and equipment and depreciation of RMB.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.15 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\$117,214.7 million (2021: HK\$119,642.0 million) included:

By accounting nature:

	2022			2021		
	Non-current HK\$'M	Current HK\$'M	Total HK\$'M	Non-current HK\$'M	Current HK\$'M	Total HK\$'M
(i) Amounts due from contract customers	22,700.8	4,391.2	27,092.0	36,255.5	3,798.7	40,054.2
(ii) Receivables under service concession arrangements	58,470.5	6,902.8	65,373.3	53,218.1	5,522.7	58,740.8
(iii) Trade receivables	12,848.7	11,900.7	24,749.4	11,956.1	8,890.9	20,847.0
Total	94,020.0	23,194.7	117,214.7	101,429.7	18,212.3	119,642.0

- (i) Amounts due from contract customers of HK\$27,092.0 million represent the balances of accumulated construction costs incurred to date plus recognised accumulated gross profits exceeding progress billings arising from BOT projects and comprehensive renovation projects during the phase of construction. Total balance decreased by HK\$12,962.2 million (non-current portion decreased by HK\$13,554.7 million and current portion increased by HK\$592.5 million), which was mainly due to reclassification to receivables under service concession arrangements and trade receivables as a result of operation commencement of certain BOT projects and completion of BT projects respectively;
- (ii) Receivables under service concession arrangements of HK\$65,373.3 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\$6,632.5 million (non-current portion increased by HK\$5,252.4 million and current portion increased by HK\$1,380.1 million) was mainly due to reclassification from amounts due from contract customers as a result of operation commencement of certain BOT projects; and

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

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

(iii) Trade receivables of HK\$24,749.4 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\$3,902.4 million (non-current portion increased by HK\$892.6 million and current portion increased by HK\$3,009.8 million) was mainly due to consolidation of BEURG and reclassification from amounts due from contract customers as a result of completion of BT projects.

By business nature:

	2022 <i>HK\$'M</i>	2021 <i>HK\$'M</i>
Water treatment services by BOT and TOT projects	83,344.4	83,483.8
Construction services of comprehensive renovation projects	28,812.2	31,445.5
Technical and consultancy services and other businesses	2,247.4	4,712.7
Environmental hygiene services and hazardous waste treatment businesses	2,810.7	–
Total	117,214.7	119,642.0

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\$83,344.4 million (31 December 2021: HK\$83,483.8 million). Total receivables for the construction service of comprehensive renovation projects were HK\$28,812.2 million (31 December 2021: HK\$31,445.5 million). Total receivables for technical and consultancy services and other businesses were HK\$2,247.4 million (31 December 2021: HK\$4,712.7 million). Environmental hygiene services and hazardous waste treatment businesses were HK\$2,810.7 million (31 December 2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.16 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. Increase was mainly due to acquisition of a subsidiary and consolidation of BEURG.

3.17 Investments in joint ventures

Investments in joint ventures decreased by HK\$351.2 million, mainly due to depreciation of RMB and dividend declared by certain joint ventures.

3.18 Investments in associates

Investments in associates decreased by HK\$2,753.2 million, mainly due to depreciation of RMB, deemed disposal of SDHS New Energy and consolidation of BEURG which was classified as an associate previously.

3.19 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables decreased by HK\$1,217.8 million (non-current portion decreased by HK\$563.9 million and current portion decreased by HK\$653.9 million), mainly due to the decrease in amounts due from joint ventures, associates and deposits and other debtors.

3.20 Cash and cash equivalents

Cash and cash equivalents increased by HK\$2,421.2 million which was mainly due to consolidation of BEURG and proceeds from the corporate bonds issued during the year.

3.21 Other payables and accruals

Other payables and accruals increased by HK\$927.4 million. The increase was mainly due to consolidation of BEURG.

3.22 Perpetual capital instrument under the equity attributable to shareholders of the Company

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

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.23 Perpetual capital instruments

Perpetual capital instruments with principal amount of RMB1,000 million and RMB1,500 million were issued by a wholly-owned subsidiary of the Company on 30 August 2021 and 25 October 2021, respectively. There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the Group subject to certain conditions. The perpetual capital instruments are classified as equity instruments.

3.24 Non-controlling interests

Non-controlling interests increased by HK\$2,274.2 million. Increase was mainly due to consolidation of BEURG during the year.

3.25 Bank and other borrowings

Bank and other borrowings increased by HK\$7,151.5 million. Increase in bank and other borrowings was mainly due to consolidation of BEURG and new bank loans utilised to finance for the acquisition and construction of various water projects in the PRC during the year.

3.26 Corporate bonds

Corporate bonds increased by HK\$1,269.0 million mainly due to the net effect of issuance of new corporate bonds of principal amount of RMB2,000 million and the depreciation of RMB during the year.

3.27 Trade payables

The decrease in trade payables by HK\$2,433.1 million was mainly due to decrease in trade payables to subcontractors for construction services of the water environmental renovation projects during the year.

3.28 Deferred Income

Deferred income mainly represents government subsidies received in respect of the Group's construction of sewage treatment, water distribution facilities and hazardous waste treatment facilities and purchase of certain land in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.29 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 2022, the Group's cash and cash equivalents amounted to HK\$13,163.9 million (31 December 2021: HK\$10,742.7 million).

The Group's total borrowings amounted to HK\$82,095.3 million (31 December 2021: HK\$76,113.5 million) comprised bank and other borrowings of HK\$63,825.3 million (31 December 2021: HK\$56,673.9 million), notes payable of nil (31 December 2021: HK\$2,438.6 million) and corporate bonds of HK\$18,270.0 million (31 December 2021: HK\$17,001.0 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 2022, the Group had banking facilities amounting to HK\$65.9 billion, of which HK\$36.0 billion have not been utilised. The banking facilities are of 1 to 20 years term.

The Group's total equity amounted to 59,463.5 million (31 December 2021: HK\$63,548.8 million). Total equity decreased was mainly due to the depreciation of RMB.

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 1.16 as at 31 December 2022 (31 December 2021: 1.03). The increase in the gearing ratio as at 31 December 2022 was mainly due to the increase in bank and other borrowings and the decrease in total equity during the year.

3.30 Capital expenditures

During the year, the Group's total capital expenditures were HK\$7,324.9 million (31 December 2021: HK\$10,709.6 million), of which HK\$1,906.4 million was paid for the acquisition of property, plant and equipment, right-of-use assets and intangible assets; HK\$4,683.7 million represented the construction and acquisition of water plants; and HK\$734.8 million represented the consideration for acquisition of equity interests in equity investments and capital injections in joint ventures and associates.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group employed 71,973* employees. Total staff cost for the year ended 31 December 2022 was HK\$5,218,252,000# (year ended 31 December 2021: HK\$3,622,166,000). The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses, share options and share awards are awarded to certain employees according to the assessment of individual performance. On 24 April 2013, the Company had granted 400,000,000 share options at an exercise price of HK\$2.244 per share under a share option scheme adopted on 28 June 2011 for the Group's directors and employees (the "Scheme"). On 28 March 2014, the Company had granted the then independent non-executive director of the Company 2,000,000 share options at an exercise price of HK\$5.18 per share under the Scheme. The Scheme was expired on 27 June 2021. No share option was exercised, lapsed or cancelled during the year ended 31 December 2022. As at 31 December 2022, the Company had 140,500,000 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 1.42% of the Company's ordinary shares in issue as at 31 December 2022. On 26 September 2019 and 1 November 2021, the Company had granted 15,374,599 awarded shares and 12,471,409 awarded shares respectively pursuant to the share award scheme adopted on 17 December 2018 (the "Share Award Scheme"). All the awarded shares were vested or lapsed. On 2 December 2022, the Company had granted 21,664,326 awarded shares pursuant to the Share Award Scheme. As at 31 December 2022, the Company had 21,664,326 awarded shares outstanding which represented approximately 0.22% of the Company's ordinary shares in issue.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year ended 31 December 2022, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies.

* Included 51,367 employees under BEURG as at 31 December 2022

Excluded total staff cost of BEURG for the six months period ended 30 June 2022 as the date of consolidation of BEURG was 30 June 2022

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGES ON THE GROUP'S ASSETS

The secured bank and other borrowings, the corporate bonds and bill facilities of the Group as at 31 December 2022 are secured by:

- (i) mortgages over certain 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 certain of the Group's property, plant and equipment and right-of-use assets;
- (v) pledges over the Group's equity interests in certain subsidiaries;
- (vi) pledges over certain of the Group's bank balances; and/or
- (vii) pledges over certain of the Group's trade receivables and amounts due from contract customers.

Save as disclosed above, at 31 December 2022, 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

The Company is committed to maintain the quality of corporate governance so as to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholders' value.

CORPORATE CULTURE AND STRATEGY

The Board has established the Group's purpose, values and strategies and was satisfied that they are aligned with the Group's culture. All Directors must act with integrity, lead by example, and promote the desired culture. The Board should instil and continually reinforce across the Company's values of "acting lawfully, ethically and responsibly".

In line with the business purpose of "customer orientation through innovation capability" and the mid-long term strategic goal of "consistently acquiring and managing assets in large amounts, applying technology and innovative models to new business growth, boosting operational efficiency and realize corporate sustainability", the Group has built a customer-oriented and market-based organizational framework.

The Group upheld the philosophy of sustainable development by maintaining a portfolio that gives light and heavy assets with equal value and keeping the expenditure upon the revenues.

The Group continued to improve comprehensive strength, enhance core operation capability, promote "dual-platform" strategy of building an asset management platform and an operation management platform. The Group worked towards an asset-light enterprise, advancing the transformation from company-based platform to platform-based company.

The Group actively promotes a culture of integrity for raising business ethics awareness among employees.

The Group will continuously review and adjust, when necessary, its business strategies and keep track of the changing market conditions to ensure prompt and proactive measures that will be taken to respond to the changes and meet the market needs to foster the sustainability of the Group.

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 (the “EDs”)

Mr. Xiong Bin (*Chairman*) (*appointed on 11 July 2022*)

Mr. Li Yongcheng (*Ex-chairman*) (*resigned on 11 July 2022*)

Mr. Jiang Xinhao

Mr. Zhou Min (*Chief Executive Officer*)

Mr. Li Haifeng

Mr. Zhang Tiefu (*resigned on 29 April 2022*)

Mr. Ke Jian

Ms. Sha Ning

Mr. Tung Woon Cheung Eric

Mr. Li Li

Non-executive Directors (the “NED”)

Mr. Wang Dianchang (*appointed on 15 March 2022*)

Mr. Zhao Feng (*resigned on 15 March 2022*)

Independent Non-executive Directors (the “INEDs”)

Mr. Shea Chun Lok Quadrant

Mr. Zhang Gaobo

Mr. Guo Rui

Mr. Wang Kaijun (*resigned on 31 August 2022*)

Mr. Chau On Ta Yuen

Mr. Dai Xiaohu (*appointed on 30 November 2022*)

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Composition *(Continued)*

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

Role and Function

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

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

According to the records maintained by the Company, the Directors who were held office during the year ended 31 December 2022 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 2022.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Composition *(Continued)*

Name of Director	Corporate Governance/ Updates on Laws, Rules & Regulations		Accounting/Financial/ Management or Other Professional Skills	
	Read Materials	Attended Seminars/ Briefing	Read Materials	Attended Seminars/ Briefing
EDs				
Mr. Xiong Bin <i>(Chairman) (appointed on 11 July 2022)</i>	✓	✓		
Mr. Li Yongcheng <i>(Ex-chairman) (resigned on 11 July 2022)</i>	–	–	–	–
Mr. Jiang Xinhao	✓	✓		
Mr. Zhou Min <i>(Chief Executive officer)</i>	✓	✓		
Mr. Li Haifeng	✓	✓		
Mr. Zhang Tiefu <i>(resigned on 29 April 2022)</i>	–	–	–	–
Mr. Ke Jian	✓	✓		
Ms. Sha Ning	✓	✓		
Mr. Tung Woon Cheung Eric	✓	✓	✓	✓
Mr. Li Li	✓	✓		
NED				
Mr. Wang Dianchang <i>(appointed on 15 March 2022)</i>	✓	✓		
Mr. Zhao Feng <i>(resigned on 15 March 2022)</i>	–	–	–	–
INEDs				
Mr. Shea Chun Lok Quadrant	✓	✓	✓	✓
Mr. Zhang Gaobo	✓	✓		
Mr. Guo Rui	✓	✓		
Mr. Wang Kaijun <i>(resigned on 31 August 2022)</i>	–	–	–	–
Mr. Chau On Ta Yuen	✓	✓		
Mr. Dai Xiaohu <i>(appointed on 30 November 2022)</i>		✓		

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Meeting and General Meeting

The Company held four Board meetings and one general meeting during the financial year ended 31 December 2022. 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 2022 are set out below:

Name of Director	Number of Board meeting attended/held	Number of general meeting attended/held
EDs		
Mr. Xiong Bin <i>(Chairman) (appointed on 11 July 2022)</i>	3/4 <i>(Note 1)</i>	N/A <i>(Note 1)</i>
Mr. Li Yongcheng <i>(Ex-chairman) (resigned on 11 July 2022)</i>	1/4 <i>(Note 2)</i>	0/1 <i>(Note 2)</i>
Mr. Jiang Xinhao	4/4	0/1
Mr. Zhou Min <i>(Chief Executive Officer)</i>	4/4	0/1
Mr. Li Haifeng	4/4	0/1
Mr. Zhang Tiefu <i>(resigned on 29 April 2022)</i>	1/4 <i>(Note 3)</i>	N/A <i>(Note 3)</i>
Mr. Ke Jian	4/4	0/1
Ms. Sha Ning	3/4	0/1
Mr. Tung Woon Cheung Eric	4/4	1/1
Mr. Li Li	4/4	0/1
NED		
Mr. Wang Dianchang <i>(appointed on 15 March 2022)</i>	4/4	0/1
Mr. Zhao Feng <i>(resigned on 15 March 2022)</i>	0/4 <i>(Note 4)</i>	N/A <i>(Note 4)</i>
INEDs		
Mr. Shea Chun Lok Quadrant	3/4	1/1
Mr. Zhang Gaobo	2/4	1/1
Mr. Guo Rui	2/4	0/1
Mr. Wang Kaijun <i>(resigned on 31 August 2022)</i>	2/4 <i>(Note 5)</i>	0/1 <i>(Note 5)</i>
Mr. Chau On Ta Yuen	4/4	1/1
Mr. Dai Xiaohu <i>(appointed on 30 November 2022)</i>	1/4 <i>(Note 6)</i>	N/A <i>(Note 6)</i>

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Meeting and General Meeting *(Continued)*

Notes:

1. Mr. Xiong Bin appointed as an executive director and the Chairman of the Company on 11 July 2022 without attending the first board meeting held during the year and the annual general meeting held on 8 June 2022.
2. Mr. Li Yongcheng resigned as an executive director and the Chairman of the Company on 11 July 2022 without attending the second to fourth board meetings held during the year and annual general meeting held on 8 June 2022.
3. Mr. Zhang Tiefu resigned as an executive director of the Company on 29 April 2022 without attending the second to fourth board meetings held during the year and the annual general meeting held on 8 June 2022.
4. Mr. Zhao Feng resigned as a non-executive director of the Company on 15 March 2022 without attending the first to fourth board meetings held during the year and the annual general meeting held on 8 June 2022.
5. Mr. Wang Kaijun resigned as an independent non-executive director of the Company on 31 August 2022 without attending the third and fourth board meetings held during the year and the annual general meeting held on 8 June 2022.
6. Mr. Dai Xiaohu appointed as an independent non-executive director of the Company on 30 November 2022 without attending the first to third board meetings held during the year and the annual general meeting held on 8 June 2022.

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

With a view to enhancing the Board's effectiveness and corporate governance, the Board believes that increasing diversity at the Board level is essential to maintaining a competitive edge in the evolving market environment.

The Board adopted a board diversity policy in 2013 which 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.

Independent

Under the Board diversity policy, the Board shall include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

As of 31 December 2021, five out of fifteen directors were INEDs. Currently, five out of fourteen directors were INEDs. The board composition remained a definite number of INEDs who are free from any business or other relationship that may interfere with the independent judgement of the INEDs.

Gender

Under the Board diversity policy, the Board targets to appoint and maintain gender diversity in respect of the Board and targets to refrain from having a single gender in respect of the Board. Ms. Sha Ning was appointed as an executive director of the Company on 3 January 2020.

Skill and Experience

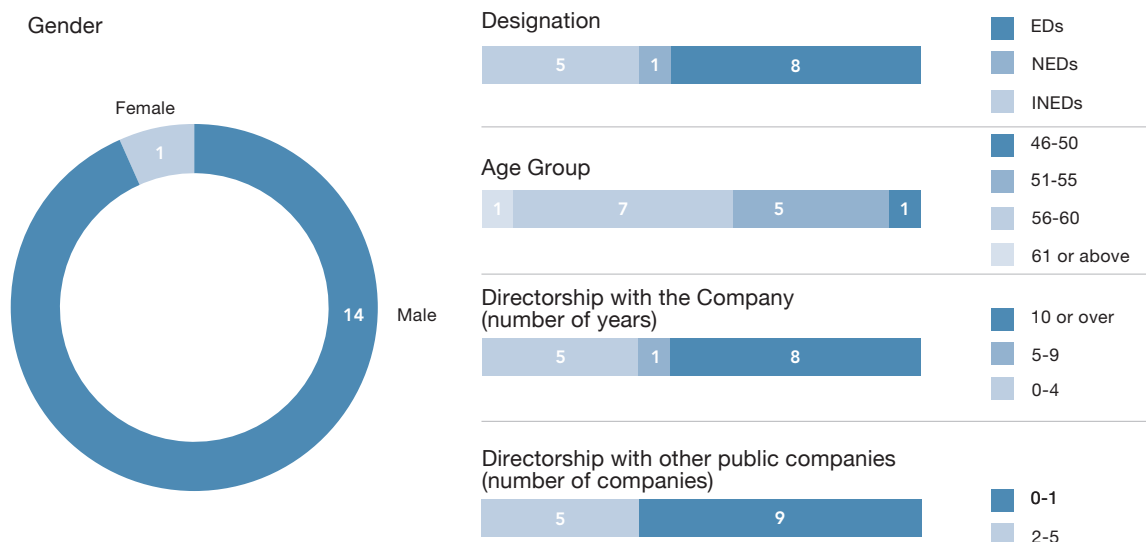
To enhance the Board diversity while maintaining an appropriate balance between continuity of experience and Board refreshment and possessing a balance of skills appropriate for the requirements of the business of the Company. Mr. Dai Xiaohu was appointed as INEDs on 30 November 2022. The Nomination Committee took into consideration of his extensive experience and pioneering achievements in the fields of environmental engineering, pollution control, solid waste recycling, energy savings and emission reduction.

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:

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY *(Continued)*

Skill and Experience *(Continued)*



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

The Board places emphasis on diversity (including gender diversity) across all levels of the Group. The employee gender ratio of the Group as at 31 December 2022 was approximately 55% male to 45% female. The Group when hiring employees considers a number of factors, including but not limited to gender, age, cultural and education background, qualification, ethnicity, professional experience, skills, knowledge and length of service, and the Group will make sure achieving gender diversity across the workforce.

CORPORATE GOVERNANCE REPORT

BOARD SUCCESSION

Board succession planning is an ongoing process for the Company. There are regular reviews and discussions on succession planning, complemented by an active search when required for people presenting the right skill and diversity mix. The Nomination Committee manages board succession in light of the Board's overall needs, term limits and retirements.

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 2022, the positions of the chairman and the chief executive officer of the Company were held separately. The chairman of the Company is Mr. Xiong Bin during the period from 11 July 2022 to 31 December 2022 following the resignation of Mr. Li Yongcheng on 11 July 2022 and the chief executive officer is Mr. Zhou Min. The segregation of duties of the chairman and the chief executive officer ensures a clear distinction in the chairman's responsibility to provide leadership for the Board and the chief executive officer's responsibility to manage the Company's business. Their roles are clearly defined to ensure their respective independence. There is no relationship between the chairman and chief executive officer of the Board in respect of financial, business, family or other material/relevant relationship.

NON-EXECUTIVE DIRECTORS

All non-executive directors (including INEDs) are appointed with specific term of three years.

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

The Company has received, a written annual confirmation from each of the INEDs confirming his independence pursuant to Rule 3.13 of the Listing Rules. INEDs are also required to inform the Company as soon as practicable if there is any change of circumstances which may affect his or her independence. No such notification has been received during the year ended 31 December 2022. The Company considers all of the INEDs are independent during their 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.

CORPORATE GOVERNANCE REPORT

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.

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. Such risks would include, amongst others, material risks relating to environmental, social and governance (“ESG”).

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

Corporate Governance Duties

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

Sustainable Development Duties

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

Sustainable Development Duties *(Continued)*

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

Sustainable Development Duties (Continued)

Summary of work done during the year: reviewed the financial statements for the period from 1 January 2022 to 30 June 2022 and for the year ended 31 December 2022, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company, the risk management (including ESG risks) and internal control systems, the Company's compliance with the CG Code and environmental, social and governance reporting guide and disclosure in the corporate governance report and environmental, social and governance report.

The Audit Committee held two meetings during the financial year ended 31 December 2022. 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 currently comprises one executive Director namely, Mr. Xiong Bin (chairman of the Nomination Committee) and two INEDs namely, Mr. Zhang Gaobo and Mr. Guo Rui.

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

The major responsibilities of the Nomination Committee include:

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Nomination Committee *(Continued)*

3. to assess the independence of the INEDs; and
4. to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive officer.

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

The Nomination Committee has adopted in 2019 a nomination policy (the "Nomination Policy") which sets out the selection criteria and procedures of appointment and re-appointment of a Director. In evaluating and selecting candidate(s) for directorship, the Nomination Committee shall follow the criteria of nomination and appointment of the directors set out in Nomination Policy, including but not limited to the integrity, skills and expertise, professional and educational backgrounds; potential time commitment for the Board and/or committee responsibilities; and the elements of the board diversity policy of the Company. The Nomination Committee shall make recommendation to the Board to appoint the appropriate person among the candidates nominated for directorship. Suitable candidate(s) shall be appointed as director(s) by the Company in accordance with the Bye-laws and the Listing Rules.

During the year, no Nomination Committee meeting was held but by way of five 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 and one executive Director namely, Mr. Tung Woon Cheung Eric.

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

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

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

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

AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditors and reviewing the non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, external auditors' remuneration for audit services was approximately HK\$12.0 million and for non-audit service assignments was approximately HK\$2.8 million, which represented agreed-upon procedures engagements 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 2022 did not affect the independence of the external auditors.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

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



First Line of Defence

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

Second Line of Defence

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

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Third Line of Defence *(Continued)*

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

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

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

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

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

During the year, the audit division 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 2022, 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 as well as those relating to the Company's ESG performance and reporting.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Third Line of Defence *(Continued)*

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

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

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

WHISTLE-BLOWING SYSTEM

The Group attaches great importance to integrity and compliance work, pays close attention to anti-bribery, anti-corruption, and anti-unfair competition. The Group has established a whistleblowing policy and system to allow our employees and stakeholders to raise concerns on any potential business misconduct and malpractice confidentially. The Discipline Inspection and Supervision Department was also set up to handle matters arising from whistleblower in an effective manner. The whistle-blowers are able to raise concern to the Audit Committee. The Group is also committed to ensuring the protection of the whistle-blower against detrimental or unfair treatment.

ANTI-BRIBERY AND ANTI-CORRUPTION SYSTEM

The Group has in place an anti-bribery and anti-corruption policies and systems for all its employees to eliminate bribery, extortion, and other frauds. Employees are required to act with integrity and to report any suspected bribery and corruptions cases to Discipline Inspection and Supervision Department of the Group.

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 2022, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

The responsibility of Ernst & Young, the Company's external auditors, is set out on pages 92 to 98 of the "Independent Auditors' Report" in this annual report.

CORPORATE GOVERNANCE 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 2022, 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 58 in this annual 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. Any payment of the dividend by the Company is also subject to any restrictions under the Laws of Bermuda, the Bye-Laws and any applicable laws, rules and regulations.

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

SHAREHOLDERS’ RIGHTS

Convening a special general meeting by shareholders (“SGM”)

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

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

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

Procedures for directing shareholders' enquiries to the Board

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

Procedures for putting forward proposals at shareholders' meetings

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

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

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

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

Shareholders Communication Policy

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders so that they can exercise their rights in an informed manner. Information about the Company is disseminated to the shareholders through the following multi-channels:

1. Delivery of interim, annual reports as well as circulars to all shareholders of the Company;
2. Publication of announcements regarding interim results, annual results or other announcements in accordance with the continuing disclosure obligations under the Listing Rules as well as online sustainability reports and media releases on the websites of the Company and The Hong Kong of Stock Exchange Limited;
3. A dedicated investors and analyst briefing call to be conducted immediately following the release of an interim results or annual results;
4. Investor meetings upon request through various channels including but not limited to meetings such as one-on-one/group meeting in person, virtual-conference, conference-calls and emails;
5. Timely updates with research analysts, in order to deliver insights in a fair and objective manner;
6. Publication of Company's latest news and issues concerned by shareholders or potential investors through the 'Investor Relations' section of the Company's official website and enterprise social media, in order to spread over all kinds of investors especially for medium and small investors; and
7. Convening the annual general meeting or special general meetings is an effective communication channel between the Board and shareholders of the Company.

The aforesaid channels allow the Company to receive feedback from its shareholders and institutional shareholders. In addition, the Company has dedicated email accounts for taking enquiries from shareholders or potential investors.

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.

The Audit Committee is responsible for the review of the implementation and effectiveness of the shareholders' communication policy ("Policy"). The Audit Committee had undertaken the review and the implementation and effectiveness of the Policy was confirmed.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS *(Continued)*

Communication with shareholders

During the financial year ended 31 December 2022, although there was the travel restrictions, the Group has proactively taken the following measures to cope with such impacts⁹ in order to ensure effective shareholders' communication and enhance our transparency:

1. A number of the Board members attended the 2022 annual general meeting during the year to provide shareholders with opportunities to understand the latest development of the Group and raise questions;
2. The Group maintained timely and effective contacts with research analysts, institutional shareholders and potential investors through various channels including but not limited to meetings such as virtual-conference meeting, conference-calls and emails; and
3. updated the Company's latest news and developments regularly through the 'Investor Relations' section of the Company's official website and enterprise social media, in order to spread over all kinds of investors especially for medium and small investors.

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

Constitutional documents

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

The Board proposes that certain amendments be made to the Company's existing bye-laws (the "Existing Bye-laws") to, among other things, (i) bring the bye-laws of the Company in alignment with the Core Shareholder Protection Standards set out in Appendix 3 to the Listing Rules and make corresponding changes to the Existing Bye-laws; (ii) provide flexibility to the Company to convene and hold hybrid general meetings and electronic general meetings; (iii) reflect certain updates in relation to the applicable laws of the Bermuda and the Listing Rules; and (iv) incorporate certain other consequential and housekeeping amendments (collectively the "Proposed Amendments"). Accordingly, the Board proposes to adopt the new amended and restated bye-laws (the "Amended Bye-laws") in substitution for, and to the exclusion of, the Existing Bye-laws.

The Proposed Amendments are subject to the approval of the Shareholders by way of a special resolution at the forthcoming annual general meeting of the Company (the "AGM"), and will become effective upon the approval by the Shareholders at the AGM. After the Proposed Amendments come into effect, the full text of the Amended Bye-laws will be published on the websites of the Stock Exchange and the Company.

A circular containing, among other things, details of the Proposed Amendments, together with a notice convening the AGM, will be despatched to the Shareholders in due course.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2022, 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 F.2.2 of the CG Code stipulates that the chairman of the Board should attend the annual general meeting of the Company. Having regard to the travel restrictions during the year under review, the chairman of the Board did not attend the annual general meeting of the Company held on 8 June 2022. In his absence, the executive director of the Company was invited to chair the annual general meeting and the member of nomination committee of the Company was invited to attend by video/audio conferencing, and was available to answer shareholders' questions at the annual general meeting.

Following the resignation of Mr. Wang Kaijun as an independent non-executive director of the Company ("Mr. Wang") on 31 August 2022, the number of independent non-executive directors of the Company had fallen below one-third of the Board as required under Rule 3.10A of the Listing Rules. The Company had complied with Rule 3.10A and Rule 3.11 of the Listing Rules within three months from the effective date of Mr. Wang's resignation upon the effective of appointment of Mr. Dai Xiaohu as an independent non-executive director of the Company on 30 November 2022.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Xiong Bin (“Mr. Xiong”), aged 56, was appointed as an executive director and the chairman of the Company in July 2022. Mr. Xiong is also the chairman of nomination committee of the Company. Mr. Xiong is an executive director and the chief executive officer 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”) and a non-executive director and vice chairman of China Gas Holdings Limited (Stock Code: 384), a company listed on the main board of the Stock Exchange. He also served as an assistant to general manager of Beijing Enterprises Group Company Limited and a director of Beijing Gas Group Co., Ltd. Mr. Xiong is a PRC engineer. He graduated from the Department of Thermal Engineering of the School of Mechanical Engineering of Tongji University, and received an EMBA degree from the School of Economics and Management of the Tsinghua University. Mr. Xiong has joined Beijing Gas Group Co., Ltd. since 1999 from which he has obtained numerous years of experience in public infrastructure facilities management. Mr. Xiong has joined Beijing Enterprises Group Company Limited since 2011 and has enriched his experience in strategic and investment management skills by working at its strategic investment department.

Mr. Jiang Xinhao (“Mr. Jiang”), aged 58, was appointed as an executive director of the Company in June 2008. Mr. Jiang serves as a vice general manager of Beijing Enterprises Group Company Limited, an executive director and vice chairman of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange. Mr. Jiang is also a non-executive director of China Gas Holdings Limited (Stock Code: 384), a company listed on the main board of the Stock Exchange. Mr. Jiang was an executive director of Beijing Properties (Holdings) Limited (Stock Code: 925), a company listed on the main board of the Stock Exchange between 2011 and 2016. Mr. Jiang is a senior economist and graduated from Fudan University in 1987 with a bachelor’s degree in law, and then in 1992 with a master’s degree in law from Fudan University. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a deputy general manager of Jingtai Finance Company in Hong Kong, and subsequently a director and vice president of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a director and the chief executive officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a manager of the investment development department of Beijing Holdings Limited and a general manager of Beijing BHL Investment Center between May 2000 and February 2005. Mr. Jiang has many years of experience in economics, finance and corporate management.

Mr. Zhou Min (“Mr. Zhou”), aged 59, 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 an executive director and the chairman of Beijing Enterprises Urban Resources Group Limited (Stock Code: 3718), a company listed on the main board of the Stock Exchange. Mr. Zhou graduated with an EMBA from the Tsinghua University and is the vice chairman of Mianyang Zhejiang Chamber of Commerce (綿陽市浙江商會). Mr. Zhou previously worked in the People’s Bank of China, Yongkang Branch of Zhejiang Province (浙江省人民銀行永康支行), the Industrial and Commercial Bank of China, Yongkang Branch of Zhejiang Province (浙江省工商銀行永康支行), and was the chairman of Beijing Jingsheng Investment Company Limited (北京景盛投資有限公司). Mr. Zhou is now the chairman of BEWG Environmental Group Co., Ltd.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Li Haifeng, formerly known as 李海峰, aged 52, was appointed as an executive director and a vice president of the Company in August 2008. He is also an 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 was an executive director of Carry Wealth Holdings Limited (Stock Code: 643), a company listed on main board of the Stock Exchange from June 2011 to February 2023.

Mr. Ke Jian ("Mr. Ke"), aged 54, 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 an executive director and the chairman of Beijing Enterprises Environment Group Limited (Stock Code: 154), a company listed on the main board of the Stock Exchange. Mr. Ke is a PRC chief senior accountant, certified tax agent and senior international finance manager. Mr. Ke received a bachelor's degree in economics from Beijing College of Finance and Commerce and a MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration.

Ms. Sha Ning ("Ms. Sha"), aged 52, 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 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. Ms. Sha 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 52, was appointed as an executive director of the Company in August 2011. Mr. Tung is a member of the remuneration committee, the chief financial officer and company secretary of the Company. Mr. Tung is also the chief financial officer 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. Mr. Tung is a Hong Kong Certified Public Accountant and a U.S. licensed practice Certified Public Accountant.

* for identification purpose only

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Li Li, aged 57, 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 an executive director of Shandong Hi-Speed New Energy Group Limited (formerly known as Beijing Enterprises Clean Energy Group Limited) (Stock Code: 1250) and an executive director of Beijing Enterprises Urban Resources Group Limited (Stock Code: 3718), the shares of both of which are listed on the main board of the Stock Exchange. Mr. Li Li graduated from Xian Jiaotong University in mechanical engineering and PhD in engineering at School of Environment, Tsinghua University. Prior to joining the Company, Mr. Li Li was then a senior engineer, a technical quality director and vice president of the First Design & Research Institute (now known as First Design and Research Institute M1 China Co., Ltd.). Mr. Li Li served as various key positions of 北京桑德環保集團有限公司 (Beijing Sound Environmental Group Company Limited*) from 2001 to 2010. He has extensive experience in investment, construction and operation in water industry.

Non-executive Director

Mr. Wang Dianchang (“Mr. Wang”), aged 50, was appointed as a non-executive director of the Company in March 2022. Mr. Wang is the chairman of Yangtze Ecology and Environment Co. Ltd., an executive director of Yangtze Ecology and Environment (HK) Investment Limited and supervisor of the Yangtze Ecology and Environment Engineering Research Center of China Three Gorges Corporation. Mr. Wang holds a doctor’s degree in engineering from Tsinghua University and is a senior engineer. Mr. Wang has extensive experience in ecological environmental protection. Mr. Wang has post-doctoral working experience in Max Planck Institute of Marine Microbiology in Germany. Mr. Wang was the deputy commissioner, commissioner and deputy director of the reservoir management department of the Three Gorges Office of the State Council, deputy director of the comprehensive department, deputy supervisor and supervisor of the environmental protection department of China Three Gorges Corporation.

* for identification purpose only

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors

Mr. Shea Chun Lok Quadrant (“Mr. Shea”), alias Martin, formerly known as Shea Chi Lap, Quadrant, aged 56, 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. Mr. Shea 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. Mr. Shea is also a fellow member of CPA Australia, a member of Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong, The Chartered Institute of Management Accountants of the United Kingdom and Institute of Singapore Chartered Accountants and a Chartered Global Management Accountant. Mr. Shea is a Chartered Tax Adviser of Hong Kong and has obtained a Certificate of Pass in Practice Training Examination for Hong Kong Certified Tax Advisers Serving in Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Qianhai, Shenzhen jointly issued by Shenzhen Municipal Office of the State Administration of Taxation and Shenzhen Local Taxation Bureau. Mr. Shea has substantial experience in accounting and finance in listed companies and worked as a qualified accountant and company secretary in various companies listed on the main board of the Stock Exchange over the years.

Mr. Zhang Gaobo (“Mr. Zhang”), aged 58, was appointed as an independent non-executive director of the Company in May 2008. Mr. Zhang is also a member of each of the audit committee and the nomination committee and chairman of the remuneration committee of the Company. Mr. Zhang 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, Mr. Zhang worked in Hainan Provincial Government and PBOC Hainan Branch and as the chairman of Hainan Stock Exchange Centre. Since 1993, Mr. Zhang has been a founding partner and chief executive of Oriental Patron Financial Group and is responsible for its overall general management and business development. Mr. Zhang was an executive director of Wealthking Investments Limited (formerly known as OP Financial Limited) (Stock Code: 1140), a company listed on the main board of the Stock Exchange from February 2003 to December 2020 and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange from June 2007 to June 2017. Mr. Zhang 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. As from 2021, Mr. Zhang starts to play the role as founder and chief executive officer of Micro Connect Group.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors *(Continued)*

Mr. Guo Rui (“Mr. Guo”), aged 55, was appointed as an independent non-executive director of the Company in May 2008. Mr. Guo 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. Chau On Ta Yuen (“Mr. Chau”), aged 75, was appointed as an independent non-executive director of the Company in April 2021. Mr. Chau graduated from Xiamen University with a bachelor’s degree in Chinese language and literature in 1968. Mr. Chau is currently an executive director and the chairman of the board of directors of ELL Environmental Holdings Limited (Stock Code: 1395), a company listed on main board of the Stock Exchange. Mr. Chau is also an independent non-executive director of Redco Properties Group Limited (Stock Code: 1622), Come Sure Group (Holdings) Limited (Stock Code: 794) and Million Hope Industries Holdings Limited (Stock Code: 1897), the shares of all of which are listed on the main board of the Stock Exchange. From June 2015 to December 2019, Mr. Chau was a non-executive director and the honorary chairman of the board of directors of China Ocean Industry Group Limited (Stock Code: 651), a company listed on main board of the Stock Exchange. From September 2017 to April 2021, Mr. Chau was an independent non-executive director of Hang Pin Living Technology Company Limited (Stock Code: 1682), a company listed on main board of the Stock Exchange. Mr. Chau was an independent non-executive director of Good Resources Holdings Limited (Stock Code: 109) since July 2019 and was re-designated as its executive director and chairman since September 2021, a company which has been delisted from the Stock Exchange since May 2022. Mr. Chau awarded the Bronze Bauhinia Star (BBS) and the Silver Bauhinia Star (SBS) by the government of Hong Kong Special Administrative Region in 2010 and 2016 respectively. Mr. Chau was a Standing Committee Member of the Thirteenth National Committee of the Chinese People’s Political Consultative Conference from March 2018 to February 2023. Mr. Chau is currently the honorary consultant of the Hong Kong Federation of Fujian Association.

Mr. Dai Xiaohu (“Mr. Dai”), aged 60, was appointed as an independent non-executive director of the Company in November 2022. Mr. Dai obtained a bachelor’s degree in environmental engineering from Tongji University in July 1985, and a doctorate degree in environment engineering from Department of Civil Engineering, Ruhr University Bochum, Germany in February 1992. Mr. Dai is currently an independent non-executive director of China Conch Environment Protection Holdings Limited (Stock Code: 587), a company listed on main board of the Stock Exchange. Mr. Dai lived and worked in Germany for 23 years and returned to China as a full-time special expert of overseas high-level talents since 2009. Mr. Dai made many pioneering achievements in the fields of environmental engineering, pollution control, solid waste recycling, energy saving and emission reduction. Mr. Dai published more than 340 SCI papers and authorized more than 100 patented inventions. Mr. Dai has been a director of the National Engineering Research Center for Urban Pollution Control of Tongji University since February 2010.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2022.

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; licensing of technical know-how related to sewage treatment in the PRC; provision of environmental hygiene services and hazardous waste treatment services in the PRC. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements.

RESULTS AND FINAL DIVIDEND

The Group’s profit for the year ended 31 December 2022 and the Group’s financial position at that date are set out in the consolidated financial statements on pages 99 to 266. An interim dividend of HK7.0 cents per ordinary share of the Company was paid on 20 October 2022. The Board recommended to pay final dividend of HK8.7 cents per ordinary share 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 dividend will be paid on or around Friday, 30 June 2023.

CLOSURES OF REGISTER OF MEMBERS

For Annual General Meeting

The register of members will be closed from Friday, 2 June 2023 to Wednesday, 7 June 2023 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Wednesday, 7 June 2023, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, 1 June 2023.

For Entitlement to Proposed Final Dividend

The register of members will be closed from Wednesday, 14 June 2023 to Friday, 16 June 2023 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 13 June 2023. Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the proposed final dividend will be paid on or around Friday, 30 June 2023.

REPORT OF THE DIRECTORS

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the chairman's statement on pages 4 to 8 of this annual report. Description of possible risks and uncertainties that the Group may be facing, can be found in the chairman's statement on pages 4 to 6. The financial risk management objectives and policies of the Group can be found in note 53 to the financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided on pages 9 to 34 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 8 and the corporate governance report on pages 35 to 56 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 2022, 2021, 2020, 2019, 2018 is set out on pages 267 to 268. 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 8% of the Group's revenue and aggregate purchases attributable to the Group's five largest suppliers accounted for 9% of the Group's total purchases for the year. Sales to the largest customer accounted for 2% of the Group's revenue and purchases from the largest supplier accounted for 3% 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 2022 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 30 to the financial statements.

REPORT OF THE DIRECTORS

DEBENTURE ISSUED

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

As at 31 December 2022, 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 2022, the outstanding principal amounts of medium-term notes issued by the Company was RMB1,000,000,000, with maturity date in May 2025 and interest rate at 5.1% per annum. 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 2022, the outstanding principal amounts of medium-term notes issued by the Company was RMB2,000,000,000, with maturity date in July 2025 and interest rate at 4.72% per annum. 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 2022, 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.

As at 31 December 2022, the outstanding principal amounts of medium-term notes issued by a wholly-owned subsidiary of the Company was RMB2,000,000,000, with maturity dates in March 2028 and March 2030 and interest rates at 3.43% and 3.98% per annum, respectively. Three years prior to the maturity of the medium-term notes due in 2028, the wholly-owned subsidiary of the Company shall be entitled to adjust the coupon rate of such medium-term notes and the notes holders shall be entitled to sell back such notes to the wholly-owned subsidiary of Company.

As at 31 December 2022, the outstanding principal amounts of extendable notes issued by the Company was RMB1,000,000,000 with fixed interest rate of 4.00% per annum to be payable for the first five years. After the first five years, the Company shall have a right to adjust the coupon rate for a cycle of every five years, unless and until the Company chooses to repay the outstanding principal amount with accrued interests in full. The note holders shall not be entitled to sell back the notes to the Company.

REPORT OF THE DIRECTORS

DEBENTURE ISSUED *(Continued)*

As at 31 December 2022, the outstanding principal amounts of medium-term notes issued by the Company was RMB1,500,000,000, with maturity date in April 2029 and interest rate at 3.98% per annum. Three 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 2022, the outstanding principal amounts of bonds issued by the Company was RMB1,000,000,000, with maturity date in July 2026 and interest rate at 3.27% 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 2022, the outstanding principal amounts of bonds issued by the Company was RMB1,000,000,000, with maturity date in July 2026 and interest rate at 3.64% per annum.

As at 31 December 2022, the outstanding principal amounts of extendable bonds issued by a wholly-owned subsidiary of the Company was RMB1,000,000,000 with fixed interest rate of 3.58% per annum to be payable for the first three years. After the first three years, the wholly-owned subsidiary of the Company shall have a right to adjust the coupon rate for a cycle of every three 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 notes to the wholly-owned subsidiary of the Company.

As at 31 December 2022, the outstanding principal amounts of extendable bonds issued by a wholly-owned subsidiary of the Company was RMB1,500,000,000 with fixed interest rate of 3.79% per annum to be payable for the first three years. After the first three years, the wholly-owned subsidiary of the Company shall have a right to adjust the coupon rate for a cycle of every three 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 notes to the wholly-owned subsidiary of the Company.

As at 31 December 2022, the outstanding principal amounts of bonds issued by the Company was RMB1,000,000,000, with maturity date in January 2027 and interest rate at 3.38% per annum.

As at 31 December 2022, the outstanding principal amounts of bonds issued by the Company was RMB1,000,000,000, with maturity date in January 2027 and interest rate at 2.97% 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.

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 34 and 36 to the financial statements.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2022, the Company's reserves available for distribution to shareholders of the Company amounted to HK\$6,978,575,000.

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. Xiong Bin (*Chairman*) (*appointed on 11 July 2022*)

Mr. Li Yongcheng (*Ex-chairman*) (*resigned on 11 July 2022*)

Mr. Jiang Xinhao

Mr. Zhou Min (*Chief Executive Officer*)

Mr. Li Haifeng

Mr. Zhang Tiefu (*resigned on 29 April 2022*)

Mr. Ke Jian

Ms. Sha Ning

Mr. Tung Woon Cheung Eric

Mr. Li Li

Non-executive Directors

Mr. Wang Dianchang (*appointed on 15 March 2022*)

Mr. Zhao Feng (*resigned on 15 March 2022*)

Independent Non-executive Directors

Mr. Shea Chun Lok Quadrant

Mr. Zhang Gaobo

Mr. Guo Rui

Mr. Wang Kaijun (*resigned on 31 August 2022*)

Mr. Chau On Ta Yuen

Mr. Dai Xiaohu (*appointed on 30 November 2022*)

REPORT OF THE DIRECTORS

DIRECTORS *(Continued)*

Mr. Xiong Bin was appointed as an executive Director on 11 July 2022. Mr. Dai Xiaohu was appointed as an independent non-executive Director on 30 November 2022. Pursuant to bye-law 91 of the Bye-laws of the Company (“Bye-laws”), Mr. Xiong Bin and Mr. Dai Xiaohu shall hold office until the next following general meeting (i.e. forthcoming annual general meeting) and being eligible, offer themselves for re-election.

In accordance with bye-law 99(B) of the Bye-laws, Mr. Li Haifeng, Mr. Ke Jian, Ms. Sha Ning, Mr. Guo Rui and Mr. Chau On Ta Yuen 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 2022 of the Company and up to date of this annual report, there are changes to the Board as follows:

- (1) Mr. Wang Kaijun resigned as an independent non-executive director of the Company with effect from 31 August 2022.
- (2) Mr. Dai Xiaohu was appointed as an independent non-executive director of the Company with effect from 30 November 2022.
- (3) Mr. Tung Woon Cheung Eric was appointed as a member of the remuneration committee of the Company with effect from 19 December 2022.

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 2022 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:

- Mr. Li Haifeng, an executive director of the Company, was resigned as an executive director, the chairman and the chief executive officer of Carry Wealth Holdings Limited on 1 February 2023.
- Mr. Chau On Ta Yuen, an independent non-executive director of the Company ceased to be a Standing Committee Member of the Thirteenth National Committee of the Chinese People’s Political Consultative Conference since March 2023. He is currently the honorary consultant of the Hong Kong Federation of Fujian Association.

Directors’ updated biographies are available on the website of the Company.

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

REPORT OF THE DIRECTORS

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the “Directors and Senior Management” of the Company are set out on pages 57 to 61 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
Xiong Bin	Beijing Enterprises Investments Limited (“BEIL”) Modern Orient Limited (“MOL”)	Director Director
Jiang Xinhao	Beijing Enterprises Group (BVI) Company Limited BEIL MOL	Director Director Director

DIRECTORS’ SERVICE CONTRACTS

All Directors (including executive Directors, NED 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.

DIRECTORS’ REMUNERATION

The Directors’ remunerations fees are subject to the approval from the shareholders of the Company at general meetings. Upon the approval from shareholders of the Company, Directors’ remuneration 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 of the Company. Further details of the Company’s Directors’ remuneration are set out on pages 165 to 168 of this annual report.

Further details of summary of work done during the year for the Company’s remuneration committee are set out in the corporate governance report on pages 47 and 48 of this annual report.

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS

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

As at 31 December 2022, 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	Capacity	Total Interests in number of ordinary shares of the Company	Approximate percentage of the issued share capital of the Company (Note 2)
Mr. Zhou Min	Note 1	368,740,878	3.6703%
Mr. Li Haifeng	Beneficial Owner	21,804,200	0.2170%
Mr. Tung Woon Cheung Eric	Beneficial Owner	285,210	0.0028%
Mr. Li Li	Beneficial Owner	1,145,088	0.0114%

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

Associated corporation	Name of Directors	Capacity	Total Interests in number of ordinary shares of the associated corporation	Approximate percentage of the issued share capital of the associated corporation (Note 5)
Beijing Enterprises Urban Resources Group Limited ("BEURG")	Mr. Zhou Min	Note 3	2,329,540,777	64.71%
	Mr. Li Haifeng	Note 4	2,329,540,777	64.71%

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS *(Continued)*

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

Notes:

1. Mr. Zhou Min was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 368,740,878 ordinary shares of HK\$0.10 each in the share capital of the Company ("Shares") as at 31 December 2022. These shares were held in the following capacity:
 - a. 57,950,000 Shares were held in a beneficial owner capacity.
 - b. 307,676,110 Shares and 3,114,768 Shares were held by Tenson Investment Limited and Star Colour Investments Limited ("Star Colour"), respectively, both of which are wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
2. The percentage represented the number of Shares over the total issued Shares of the Company as at 31 December 2022 of 10,046,609,871 Shares.
3. Mr. Zhou Min was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 2,329,540,777 ordinary shares of BEURG of HK\$0.10 each ("BEURG Shares") as at 31 December 2022. These BEURG Shares were held in the following capacity:
 - a. 490,476,000 BEURG Shares were held by Star Colour which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
 - b. 1,839,064,777 BEURG Shares were held by the Company, Beijing Holdings Limited ("BHL"), Long March Holdings Limited, Zihua Investments Limited, Maolin Investments Limited ("MIL"), Mr. Li Haifeng, Mr. Zhou Chen and ZGC International Holding Limited which entered into an acting in concert agreement (the "AIC Agreement") with Star Colour (together referred to as the "Concert Parties") on 10 May 2022. Pursuant to the AIC Agreement, the Concert Parties are acting in concert in respect of their interests in BEURG and therefore each of the Concert Parties is deemed to be interested in all the shares held by them in aggregate under the SFO. As at 31 December 2022, each of the Concert Parties were interested in an aggregate of 2,329,540,777 BEURG Shares, representing approximately 64.71% of the issued share capital of the BEURG. Details of the AIC Agreement are set out in the announcement of the Company dated 10 May 2022.
4. Mr. Li Haifeng was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 2,329,540,777 BEURG Shares as at 31 December 2022. These BEURG Shares were held in the following capacity:
 - a. 1,840,000 BEURG Shares were held in a beneficial owner capacity.
 - b. 48,960,000 BEURG Shares were held by MIL which is wholly and beneficially owned by Mr. Li Haifeng, an executive director of the Company.
 - c. 2,278,740,777 BEURG Shares were held by the Company, BHL, Star Colour, Long March Holdings Limited, Zihua Investments Limited, Mr. Zhou Chen and ZGC International Holding Limited which entered into the AIC Agreement with Mr. Li Haifeng and MIL on 10 May 2022. Pursuant to the AIC Agreement, the Concert Parties are acting in concert in respect of their interests in BEURG and therefore each of the Concert Parties is deemed to be interested in all the shares held by them in aggregate under the SFO. As at 31 December 2022, each of the Concert Parties was interested in an aggregate of 2,329,540,777 BEURG Shares, representing approximately 64.71% of the issued share capital of the BEURG. Details of the AIC Agreement are set out in the announcement of the Company dated 10 May 2022.
5. The percentage represented the number of BEURG Shares over the total issued shares of BEURG as at 31 December 2022 of 3,600,000,000 shares.

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS *(Continued)*

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

(iii) Long positions in share options of the Company

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

(iv) Long positions in awarded shares of the Company

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

Save as disclosed above, as at 31 December 2022, there were no interest or short position of the directors or chief executives of the Company in the Shares, the underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), that are required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code or the SFO.

SHARE OPTION SCHEME

On 28 June 2011, a new share option scheme (the “Scheme”) was 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 was 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 were valuable to the growth and the development of the Group as a whole. The Scheme became effective on 28 June 2011 and was effected for 10 years from that date. 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. However, the Scheme was expired on 27 June 2021. No further share options would be granted under the Scheme but in respect of all share options which remain exercisable on such date, the provisions of the Scheme shall remain in full force and effect.

The total number of shares available for issue under the Scheme was 142,500,000 Shares in respect of all outstanding share options which remain exercisable, representing approximately 1.41%, 1.42% and 1.42% of the ordinary Shares of the Company in issue as at 1 January 2022, 31 December 2022 and 30 March 2023, respectively.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

During the year ended 31 December 2022, 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 2022	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing price per Share HK\$
	As at 1 January 2022	Granted	Exercised	Lapsed	Cancelled					
Directors										
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				
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				

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

Category of Participants/ Name	Number of Share Options					As at 31 December 2022	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing price per Share HK\$
	As at 1 January 2022	Granted	Exercised	Lapsed	Cancelled					
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	24,900,000	-	-	-	-	24,900,000				
Eligible Participants including Employees										
In aggregate	7,596,000 <i>(Note)</i>	-	-	-	-	7,596,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	-
	18,704,000 <i>(Note)</i>	-	-	-	-	18,704,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	20,700,000 <i>(Note)</i>	-	-	-	-	20,700,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	33,380,000 <i>(Note)</i>	-	-	-	-	33,380,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	35,220,000 <i>(Note)</i>	-	-	-	-	35,220,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	2,000,000	-	-	-	-	2,000,000	28/3/2014	1/6/2016 – 27/3/2024	5.180	-
Sub-total	117,600,000	-	-	-	-	117,600,000				
Total	142,500,000	-	-	-	-	142,500,000				

Note:

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 2022.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

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 2022, the Company had 142,500,000 share options outstanding under the Scheme. Should they be fully exercised, the Company will receive approximately HK\$325,642,000 (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\$127,632,000.

SHARE AWARD SCHEME

The Company had adopted a share award scheme (the “Share Award Scheme”) on 17 December 2018. The purpose of the Share Award Scheme was 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 would 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 with the market price from time to time 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 with payment of the vesting charges by the selected participants that may be imposed by the Company.

REPORT OF THE DIRECTORS

SHARE AWARD SCHEME *(Continued)*

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

The number of share awards available for grant are 202,716,437 Shares and 179,267,871 Shares as at 1 January 2022 and 31 December 2022, respectively.

During the year, a total of 21,664,326 awarded Shares was awarded under the Share Award Scheme, representing approximately 0.22% of the issued share capital of the Company as at the date of grant of awarded Shares on 2 December 2022.

During the year ended 31 December 2022, 21,664,326 awarded shares was granted on 2 December 2022 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					Vesting Period <i>(Note 2)</i>
	As at 1 January 2022	Granted <i>(Note 1)</i>	Vested	Lapsed	As at 31 December 2022	
Directors						
Zhou Min	–	2,217,240	–	–	2,217,240	08/04/2022 - 07/04/2023
Li Haifeng	–	332,586	–	–	332,586	08/04/2022 - 07/04/2023
Tung Woon Cheung Eric	–	184,770	–	–	184,770	08/04/2022 - 07/04/2023
Li Li	–	1,108,620	–	–	1,108,620	08/04/2022 - 07/04/2023
Sub-total	–	3,843,216	–	–	3,843,216	
Eligible Participants						
In aggregate	140,920 <i>(Note 3)</i>	17,821,110	(140,920) <i>(Note 4)</i>	–	17,821,110	08/04/2022 - 07/04/2023
Total	140,920	21,664,326	(140,920)	–	21,664,326	

REPORT OF THE DIRECTORS

SHARE AWARD SCHEME *(Continued)*

Notes:

1. The closing price immediately before the date on which the awarded shares were granted on 2 December 2022 was HK\$1.97 per Share.
2. The vesting period for the share awards granted on 2 December 2022 is from 8 April 2022 to 7 April 2023.
3. The vesting period for the share awards granted on 1 November 2021 is from 12 April 2021 to 11 April 2022.
4. The weighted average closing price per Share immediately before the date of the share awards vested by a selected participant is HK\$2.74 per Share.
5. Upon fulfillment of performance target, the awarded shares shall be vested to the selected participants.

Further details of the Share Award Scheme are set out in note 32 to the financial statements.

The Directors have estimated the values of the share awards determined based on the closing market price at the date of the grant.

As at 31 December 2022, the Company had 21,664,326 share awards outstanding under the Share Award Scheme. The fair value of these unvested awards measured in accordance with the Group's accounting policy (note 3.4 to the financial statements) amounted to HK\$42,462,000.

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, any of its holding companies of the Company, subsidiaries or 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 2022, 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

Substantial Shareholders	Capacity	Total Interests in number of ordinary shares of the Company	Approximate percentage of the issued share capital of the Company (Note 8)
Beijing Enterprises Environmental Construction Limited ("BE Environmental")	Beneficial Owner	4,121,604,070	41.03%
Beijing Enterprises Holdings Limited ("BEHL")	Beneficial Owner/Interest of controlled corporation	4,132,107,070 (Note 1)	41.13%
Modern Orient Limited ("MOL")	Interest of controlled corporations	4,132,107,070 (Note 2)	41.13%
Beijing Enterprises Investments Limited ("BEIL")	Interest of controlled corporations	4,132,107,070 (Note 2)	41.13%
Beijing Enterprises Group (BVI) Company Limited ("BE Group (BVI)")	Interest of controlled corporations	4,132,107,070 (Note 3)	41.13%
Beijing Enterprises Group Company Limited ("BEGCL")	Interest of controlled corporations	4,174,239,070 (Note 4)	41.55%
Three Gorges Capital Holdings (HK) Co., Limited ("TGC HK")	Beneficial Owner	515,952,000	5.14%
Three Gorges Capital Holdings Co., Ltd ("TGC")	Interest of controlled corporation	515,952,000 (Note 5)	5.14%
Yangtze Ecology and Environment (HK) Investment Limited ("YEE HK")	Beneficial Owner	872,121,436	8.68%
Yangtze Ecology and Environment Co., Ltd. ("YEE")	Interest of controlled corporation	872,121,436 (Note 6)	8.68%
China Three Gorges Corporation ("CTG")	Interest of controlled corporations	1,588,495,436 (Note 7)	15.81%

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 10,503,000 Shares directly owned by BEHL and 4,121,604,070 Shares owned by BE Environmental. BE Environmental beneficially holds 4,121,604,070 Shares (representing approximately 41.03% 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 10,503,000 Shares directly owned by BEHL and 4,121,604,070 Shares owned through BE Environmental. MOL and BEIL are the immediate shareholders of BEHL and collectively hold approximately 20.93% 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 41.12% 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 and 42,132,000 Shares owned by BHL. BE Group (BVI) and BHL are wholly-owned subsidiaries of the BEGCL. Accordingly, BEGCL is deemed to be interested in the Shares indirectly owned by BE Group (BVI) and BHL.
- (5) The interest disclosed comprises the Shares owned by TGC HK which beneficially holds 515,952,000 Shares (representing approximately 5.14% in the share capital of the Company). TGC HK is a wholly-owned subsidiary of TGC. Accordingly, TGC is deemed to be interested in the Shares owned by TGC HK.
- (6) The interest disclosed comprises the Shares owned by YEE HK which beneficially holds 872,121,436 Shares (representing approximately 8.68% in the share capital of the Company). YEE HK is a wholly-owned subsidiary of YEE. Accordingly, YEE is deemed to be interested in the Shares owned by YEE HK.
- (7) The interest disclosed comprises (i) 515,952,000 Shares owned by TGC HK, a direct wholly-owned subsidiary of TGC which is in turn directly held as to 30% by CTG, 30% by Yangtze Three Gorges Investment Management Co., Ltd. and 10% by China Yangtze Power Co., Ltd. ("CYP"). CYP is directly held as to 54.54% by CTG and 3.87% by China Three Gorges Construction Engineering Corporation, a direct wholly-owned subsidiary of CTG; (ii) 200,422,000 Shares owned by China Yangtze Power International (Hongkong) Co., Ltd., a direct wholly-owned subsidiary of CYP; and (iii) 872,121,436 Shares owned by YEE HK, a direct wholly-owned subsidiary of YEE, which is in turn directly held as to 100% by CTG.
- (8) The percentage represented the number of Shares over the total issued Shares of the Company as at 31 December 2022 of 10,046,609,871 Shares.

Save as disclosed above, as at 31 December 2022, 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

The Company repurchased a total of 89,212,000 ordinary shares of the Company on the Stock Exchange for the year ended 31 December 2022 at an aggregate consideration of HK\$162,924,260 (before expense) ("Share Repurchase"). All the repurchased shares were subsequently cancelled by the Company. The Share Repurchase was expected to have a positive effect on the net asset value per Share and create greater Shareholder value. Details of repurchase of such ordinary shares were as follows:

Month/Year	Number of ordinary shares repurchased	Price per share		Aggregate consideration paid (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
August 2022	722,000	2.02	2.00	1,450,000
September 2022	32,534,000	2.02	1.63	59,819,320
October 2022	50,098,000	1.93	1.66	91,130,280
November 2022	5,838,000	1.93	1.67	10,485,460
December 2022	20,000	1.96	1.96	39,200
Total:	89,212,000			162,924,260

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 2022.

EMOLUMENT POLICY

The emolument of each of Directors and 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 51 to the financial statements were 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 Transactions

(1) *Connected Transactions with Beijing Enterprises Group Finance Co., Ltd.* (北京控股集團財務有限公司)*

(i) *Finance Lease Agreements and Loan Agreement with Beijing Enterprises Group Finance Co., Ltd.* (北京控股集團財務有限公司)*

On 26 August 2022, Jinan Beikong Water Development Co., Ltd.* (濟南北控水務發展有限公司) (“Jinan Beikong”, a wholly-owned subsidiary of the Company), as the lessee, entered into the finance lease agreement (“Jinan Beikong Finance Lease Agreement”) with Beijing Enterprises Group Finance Co., Ltd.* (北京控股集團財務有限公司) (“BG Finance”), as lessor, pursuant to which Jinan Beikong agreed to transfer and change the registration of the ownership of pre-treatment equipment as stipulated in the Jinan Beikong Finance Lease Agreement under the name of BG Finance for a term of ten years for a transfer consideration of RMB23,000,000, and BG Finance then agreed to lease to Jinan Beikong with the lease principal of RMB23,000,000, the lease interest of approximately RMB5,609,000 and the total rent (lease principal plus lease interest) of approximately RMB28,609,000.

On 26 August 2022, Pucheng Gerui Water Purification Co., Ltd.* (蒲城格瑞水質淨化有限公司) (“Pucheng Gerui”, a wholly-owned subsidiary of the Company), as the lessee, entered into the finance lease agreement (“Pucheng Gerui Finance Lease Agreement”) with BG Finance, as lessor, pursuant to which Pucheng Gerui agreed to transfer and change the registration of the ownership of the Pucheng sewage treatment plant as stipulated in the Pucheng Gerui Finance Lease Agreement under the name of BG Finance from Pucheng Gerui for a transfer consideration of RMB49,000,000, and BG Finance then agreed to lease to Pucheng Gerui with the lease principal of RMB49,000,000, the lease interest of approximately RMB11,951,000 and the total rent (lease principal plus lease interest) of approximately RMB60,951,000.

* For identification purposes only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(A) Connected Transactions *(Continued)*

(I) Connected Transactions with Beijing Enterprises Group Finance Co., Ltd.* (北京控股集團財務有限公司) *(Continued)*

(i) Finance Lease Agreements and Loan Agreement with Beijing Enterprises Group Finance Co., Ltd.* (北京控股集團財務有限公司) *(Continued)*

On 26 August 2022, Foshan Beikong Water Quality Treatment Co., Ltd.* (佛山北控水質處理有限公司) (Foshan Beikong, a non-wholly owned subsidiary of the Company), as borrower, entered into loan agreement with BG Finance, as lender, pursuant to which BG Finance agreed to grant the loan facility in a principal amount of RMB240,000,000 to Foshan Beikong.

The loan facility would be secured by the pledge of expected earnings right from Nanbian sewage treatment plant supporting pipeline network project, Fanhu sewage treatment plant and supporting pipeline network project and Leping Yong sewage interception project under “Three Old” redevelopment infrastructure construction given by Foshan Beikong and the guarantee given by Beijing Enterprises Water Group (China) Investment Limited* (北控水務(中國)投資有限公司) (“BEWG (China) Investment”, a wholly-owned subsidiary of the Company) in proportion to 80% shareholding in Foshan Beikong in favour of BG Finance.

Further details are set out in the announcement of the Company dated 26 August 2022.

(ii) Formation of Joint Venture

On 7 December 2022, BEWG (China) Investment, Beijing General Municipal Engineering Design & Research Institute Co., Ltd.* (北京市市政工程設計研究總院有限公司) (“Beijing Municipal Institute”), China Tiegong Investment and Construction Co., Ltd.* (中國鐵工投資建設集團有限公司) (“China Tiegong Investment”), China Railway Municipal Environmental Construction Co., Ltd.* (中鐵市政環境建設有限公司) (“China Railway Municipal Environmental”), Yingtan Highway Engineering Co., Ltd.* (鷹潭公路工程有限有限公司) (“Yingtan Highway”) and Yingtan Xinda Engineering Management Co., Ltd.* (鷹潭市信達工程管理有限有限公司) (“Yingtan Xinda”) entered into the shareholders agreement in relation to establishment of the joint venture for the purpose of design, investment, construction, operation and maintenance of PPP project of sponge city construction integrating plant networks, river and lake in Xinjiang New District, Yingtan City, Jiangxi Province, the PRC.

Pursuant to the shareholder agreement, the registered capital of the joint venture would be RMB278,874,000. BEWG (China) Investment agreed to inject RMB13,944,000 in cash. The joint venture would be owned as to 5%, 54.8%, 39%, 1%, 0.1% and 0.1% by BEWG (China) Investment, China Tiegong Investment, Yingtan Xinda, Yingtan Highway, Beijing Municipal Institute and China Railway Municipal Environmental respectively.

* For identification purposes only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(A) Connected Transactions *(Continued)*

(I) *Connected Transactions with Beijing Enterprises Group Finance Co., Ltd.* (北京控股集團財務有限公司)*
(Continued)

(ii) *Formation of Joint Venture (Continued)*

Further details are set out in the announcement of the Company dated 7 December 2022.

At the date of each agreement as aforesaid, each of BEGCL and BEHL is a connected person of the Company under the Listing Rules by virtue of each being a controlling 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 above-mentioned agreements in items (i) and (ii) constitute connected transactions for the Company under Chapter 14A of the Listing Rules. As these transactions were related and to be completed within 12-month period, these transactions shall be aggregated and treated as if they were one transaction under Chapter 14A of the Listing Rules which were subject to the reporting and announcement requirements but were exempt from the circular and the independent shareholders' approval requirement.

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

(i) *Deemed Acquisition of Equity Interest in Changsha Three Gorges Beijing Enterprises Water Group Investment Co., Ltd.* (長沙三峽北控水務投資有限公司)*

On 17 October 2022, BEWG (China) Investment entered into withdrawal agreement with Yangtze Ecology and Environment Co., Ltd.* (長江生態環保集團有限公司) ("YEE") regarding the withdrawal of investments by YEE in relation to an investment, construction, operation and maintenance of sewage treatment plants and networks integration PPP Project (Phase II) in Liuyang City of Hunan Province, the PRC.

Pursuant to the withdrawal agreement, YEE was no longer responsible to bear and contribute in the registered capital of Changsha Three Gorges Beijing Enterprises Water Group Investment Co., Ltd.* (長沙三峽北控水務投資有限公司) ("CTGBE Investment") by reducing the registered capital of CTGBE Investment from RMB500,000,000 to RMB245,000,000 whereas BEWG (China) Investment would continue to inject and contribute in the amount of RMB245,000,000 as a total registered capital of CTGBE Investment. BEWG (China) Investment shall hold 100% equity interest of CTGBE Investment as a result of the capital reduction and there was a deemed acquisition of equity interest in CTGBE Investment.

* For identification purposes only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

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

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

(ii) Further Acquisition of Equity Interest in Liuyang Three Gorges Beijing Enterprises Water Group Co., Ltd.* (瀘陽三峽北控水務有限公司)

Pursuant to the withdrawal agreement, YEE was no longer responsible to bear and contribute in the registered capital of Liuyang Three Gorges Beijing Enterprises Water Group Co., Ltd.* (瀘陽三峽北控水務有限公司) (“Liuyang Three Gorges BEWG”) while BEWG (China) Investment would take over YEE’s equity interest in Liuyang Three Gorges BEWG by way of capital injection. There was a further acquisition of equity interest in Liuyang Three Gorges BEWG.

On 17 October 2022, CTG, a substantial shareholder of the Company, beneficially owned not less than 30% equity interest in YEE and therefore YEE was associates of CTG. Hence, YEE was connected person of the Company and the entering into the withdrawal agreement together with previous agreements entered or completed with CTG group within 12-month period constituted connected transactions of the Company which was subject to the reporting and announcement requirements but were exempt from the circular and the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

Further details are set out in the announcement of the Company dated 17 October 2022.

(III) *Connected Transactions with Agricultural Bank of China Limited and/or its group companies*

Loan Agreement with Agricultural Bank of China Limited

On 19 August 2022, Beijing Daoxiang Water Resources Technology Co., Ltd.* (北京稻香水資源科技有限公司) (“Daoxiang”, a wholly-owned subsidiary of the Company), as borrower, entered into loan agreement with Beijing pilot free trade zone branch of Agricultural Bank of China Limited* (中國農業銀行股份有限公司北京自貿試驗區分行) (“ABC, Beijing branch”), as lender, pursuant to which ABC, Beijing branch agreed to grant the loan facility in a principal amount of RMB503,685,000 to Daoxiang.

The loan facility would be secured by the pledge of expected earnings right from Beijing Haidian Daoxiang Lake reclaimed water plant phase II project in favour of ABC, Beijing branch.

* For identification purposes only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

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

(III) *Connected Transactions with Agricultural Bank of China Limited and/or its group companies (Continued)* *Loan Agreement with Agricultural Bank of China Limited (Continued)*

On 19 August 2022, ABC Financial Asset Investment Co., Ltd* (農銀金融資產投資有限公司) (“ABC Financial”), was the substantial shareholders of various subsidiaries of the Company. As ABC beneficially owned 100% equity interest in ABC Financial, ABC was associate of ABC Financial. Hence, ABC was connected person of the Company and the entering into the loan agreement together with previous loan agreements entered with ABC group within 12-month period constitutes connected transaction of the Company which was subject to the reporting and announcement requirements but were exempt from the circular and the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

Further details are set out in the announcement of the Company dated 19 August 2022.

(B) **Continuing Connected Transactions**

(I) *2021 Deposit Services Master Agreement*

References were made to the deposit services master agreement dated 31 March 2015, the supplemental agreement dated 22 December 2015 and 2018 deposit services master agreement (the “2018 Deposit Services Master Agreement”) dated 30 October 2017 entered into between the Company and BG Finance pursuant to which, the Group might, in its ordinary and usual course of business, place and maintain deposits with BG Finance on normal commercial terms from time to time during the period from 1 January 2018 to 31 December 2020.

As the 2018 Deposit Services Master Agreement expired 31 December 2020, and in order to regulate such transactions that would continue to take place, after 31 December 2020, the Company and BG Finance entered into the 2021 deposit services master agreement (“2021 Deposit Services Master Agreement”) on 23 December 2020 whereby the Company and BG Finance would continue to carry out the transactions of similar natures from time to time under the 2021 Deposit Services Master Agreement for three years from 1 January 2021 to 31 December 2023, with the terms and conditions substantially the same as those under the 2018 Deposit Services Master Agreement. The cumulative daily outstanding deposits balance placed by the Group with BG Finance (including any interest accrued thereon) during the terms of the 2021 Deposit Services Master Agreement would not exceed HK\$1,520 million for each of the three years ending 31 December 2021, 2022 and 2023 (the “Annual Cap”).

The 2021 Deposit Services Master Agreement was therefore expected not only to provide the Group with a new means of financing but also to improve the efficiency of the use of its funds through higher interest income and lower costs of financing. The Group also expected to be in a better position to manage the security of its funds since BG Finance was not considered to be exposed to any significant capital risk.

* For identification purposes only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(B) Continuing Connected Transactions *(Continued)*

(I) 2021 Deposit Services Master Agreement *(Continued)*

The rate at which interest would accrue on any deposit placed by the Group with BG Finance under the 2021 Deposit Services Master Agreement would not be lower than the following:

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

On 23 December 2020, each of BEGCL and BEHL was 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 owned not less than 30% equity interest in BG Finance, BG Finance was an associate of each of BEGCL and BEHL, therefore, the entering into of the 2021 Deposit Services Master Agreement constituted continuing connected transactions of the Company which was subject to the reporting and announcement requirements but exempt from the circular and 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 51 to the financial statements.

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

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

ABC Group being one of the Group's principal banking partners, the Group engaged ABC Group in respect of deposit services on a continuing and recurring basis. The maximum daily balance of deposit services (including accrued interests) of the Group with ABC Group ("ABC Deposit Services") would not exceed RMB3 billion for each of the three years ended 31 December 2020, 2021 and 2022 (the "ABC Group Annual Cap"). As the annual caps for ABC Deposit Services expired on 31 December 2022 and in order to provide the annual caps for ABC Deposit Services that would continue to take place after 31 December 2022, the Board resolved to renew and set the annual caps for ABC Deposit Services of RMB3 billion for the three financial years ending 31 December 2023, 2024 and 2025.

* For identification purposes only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(B) Continuing Connected Transactions *(Continued)*

(II) *Deposit Services provided by Members of Agricultural Bank of China Limited (Continued)*

The provision of ABC Deposit Services was essential to the Group in terms of facilitating the daily operating cash flows and securing stable and reliable financing support to the Group, therefore maintaining the financial health and assisting the business expansion of the Group in the coming years.

Pricing Principles

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

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

ABC Deposit Services would constitute continuing connected transactions of the Company which was subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirement under Chapter 14A of the Listing Rules. ABC Deposit Services was carried out within ABC Group Annual Cap, details of which are set out in note 51 to the financial statements.

(III) *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 had been reviewed by the independent non-executive Directors, who confirmed that the aforesaid continuing connected transactions were entered into:

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(B) Continuing Connected Transactions *(Continued)*

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

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 (Revised) *Auditor's Letter on Continuing Connected Transactions under the Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter had been provided by the Company to the Stock Exchange in due course.

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-laws 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.

REPORT OF THE DIRECTORS

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$1,306,000.

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.

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
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	RMB1,000	May 2025 <i>Note 4</i>	<i>Note 1</i>
20 July 2018	Issuance of medium-term notes	RMB2,000	July 2025 <i>Note 4</i>	<i>Note 1</i>
14 December 2018	Term loan facilities with various banks	AU\$146	December 2023	<i>Note 3</i>
11 January 2019	Issuance of medium-term notes	RMB1,000	January 2026 <i>Note 4</i>	<i>Note 1</i>
11 January 2019	Issuance of medium-term notes	RMB1,000	January 2029	<i>Note 1</i>
12 May 2020	Issuance of medium-term notes	RMB1,000	5+N years <i>Note 5</i>	<i>Note 1</i>
16 November 2020	Green loan facility with a bank	HK\$1,800	November 2025	<i>Note 2</i>

REPORT OF THE DIRECTORS

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER *(Continued)*

Date of the Agreement(s)/ Issuance of Notes	Nature of the Agreement(s)/Notes	Aggregate amount <i>(million)</i>	Final Maturity	Specific performance obligations
25 November 2020	Term loan facility with a bank	HK\$1,500	November 2025	<i>Note 2</i>
20 January 2022	Issuance of medium-term notes	RMB1,000	January 2027 <i>Note 4</i>	<i>Note 6</i>
		RMB1,000	January 2027	<i>Note 6</i>
16 December 2022	Green loan facilities with a bank	HK\$4,000	December 2027	<i>Note 2</i>

Notes:

- (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.
- (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 People's Government of Beijing Municipality* (北京市人民政府) ("Beijing Municipality").
- (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 Municipality.
- 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.
- The reset date of each coupon rate is the redemption date. The Company has the right to choose to redeem the principal at the face value plus accrued interest on the first reset date of the coupon rate of the medium-term note and every subsequent interest payment date. The reset date of coupon rate is the corresponding day of every 5 years from the first reset date of coupon rate. The end of the fifth interest-bearing year is the first reset date of coupon rate. From the sixth interest bearing year, the coupon rate is reset every 5 years.
- (i) BEGCL owns or controls, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company; (ii) BEGCL supervises the Company; (iii) BEGCL is directly or indirectly the single largest shareholder of the Company; and (iv) the nominees of BEGCL comprise the majority of the members of the Board.

* For identification purposes only

REPORT OF THE DIRECTORS

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER *(Continued)*

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.

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 2022, 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 F.2.2 of the CG Code stipulates that the chairman of the Board should attend the annual general meeting of the Company. Having regard to the travel restrictions during the year under review, the chairman of the Board did not attend the annual general meeting of the Company held on 8 June 2022. In his absence, the executive director of the Company was invited to chair the annual general meeting and the member of nomination committee of the Company was invited to attend by video/audio conferencing, and was available to answer shareholders' questions at the annual general meeting.

Following the resignation of Mr. Wang Kaijun as an independent non-executive director of the Company ("Mr. Wang") on 31 August 2022, the number of independent non-executive directors of the Company had fallen below one-third of the Board as required under Rule 3.10A of the Listing Rules. The Company had complied with Rule 3.10A and Rule 3.11 of the Listing Rules within three months from the effective date of Mr. Wang's resignation upon the effective of appointment of Mr. Dai Xiaohu as an independent non-executive director of the Company on 30 November 2022.

The corporate governance report is set out on pages 35 to 56 of this annual report.

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 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.

REPORT OF THE DIRECTORS

AUDITORS

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

EVENT AFTER THE REPORTING PERIOD

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

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Group for the year ended 31 December 2022 were approved by the board of directors on 30 March 2023.

On behalf of the Board

Xiong Bin

CHAIRMAN

Hong Kong

30 March 2023

INDEPENDENT AUDITOR'S REPORT



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 99 to 266, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, 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 18.5% of total revenue for the year ended 31 December 2022 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 its estimation of the gross profit margin for the construction revenue. Significant management judgement was involved in determining the construction margins for these construction services.

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

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

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

The Group had significant receivables under service concession arrangements, trade and other receivables and amounts due from contract customers with an aggregate carrying amount of approximately HK\$123.8 billion, which represented 67.3% of the Group's total assets as at 31 December 2022. The provision for expected credit losses ("ECL") of these assets carried as at 31 December 2022 was approximately HK\$2.1 billion in aggregate.

Management engaged an independent specialist to assist the Group 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 balances, and significant management judgements and estimates were involved in determining the ECL.

Relevant disclosures are included in notes 4, 18, 25, 26 and 27 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 occurred.

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

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

We involved our internal valuation specialists to assist us in evaluating the Group's estimation methodology of ECL and inspecting the parameters with reference to external available data sources.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Impairment testing of goodwill

Management is required to perform impairment testing of goodwill at least on an annual basis. The test is largely based on management's expectations, assumptions and estimates of future results of the cash-generating units to which the goodwill has been allocated. The Group engages an external valuer to assist the Group with the impairment assessment by preparing the valuation models. The assumptions are affected by expectations of future market or economic conditions. The impairment testing is based on the recoverable amounts of the relevant cash-generating units, which are compared with their respective carrying values. As at 31 December 2022, the amount of goodwill carried in the Group's financial statements was approximately HK\$4.2 billion.

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

We obtained an understanding of the Group's methodology for impairment testing and involved our internal valuation specialists in evaluating the valuation models, assumptions and parameters used by the valuer and the Group. Our procedures included testing the assumptions used in the cash flow forecast and assessing the accuracy of previous forecasts by comparing 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ms. Leung Yin.

Ernst & Young

Certified Public Accountants

Hong Kong

30 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
REVENUE	<i>6</i>	24,982,372	27,880,147
Cost of sales		(15,144,370)	(17,430,477)
Gross profit		9,838,002	10,449,670
Interest income	<i>6</i>	1,130,278	1,096,965
Other income and gains, net	<i>6</i>	1,488,270	1,248,472
Administrative expenses		(3,457,293)	(3,158,430)
Other operating expenses, net		(2,783,350)	(905,568)
PROFIT FROM OPERATING ACTIVITIES	<i>7</i>	6,215,907	8,731,109
Finance costs	<i>8</i>	(3,192,649)	(2,718,745)
Share of profits and losses of:			
Joint ventures	<i>20</i>	652,031	861,712
Associates	<i>21</i>	121,754	58,069
PROFIT BEFORE TAX		3,797,043	6,932,145
Income tax expense	<i>11</i>	(1,081,333)	(1,464,224)
PROFIT FOR THE YEAR		2,715,710	5,467,921
ATTRIBUTABLE TO:			
Shareholders of the Company		1,374,151	4,195,940
Holders of perpetual capital instruments		170,841	211,473
Non-controlling interests		1,170,718	1,060,508
		2,715,710	5,467,921
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	<i>13</i>		
– Basic		HK13.18 cents	HK41.42 cents
– Diluted		HK13.16 cents	HK41.17 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	Note	2022 HK\$'000	2021 HK\$'000
PROFIT FOR THE YEAR		2,715,710	5,467,921
OTHER COMPREHENSIVE INCOME/(LOSS)			
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange fluctuation reserve:			
– Translation of foreign operations		(6,447,064)	1,386,186
– Release upon disposal of subsidiaries	46	1,454	(6)
– Release upon deemed disposal of partial interest in an associate		(9,918)	–
		(6,455,528)	1,386,180
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>			
– Share of other comprehensive income/(loss) of a joint venture		(4,804)	5,357
– Changes in fair value of equity investments designated at fair value through other comprehensive income		(415,213)	(116,039)
		(420,017)	(110,682)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		(6,875,545)	1,275,498
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		(4,159,835)	6,743,419
ATTRIBUTABLE TO:			
Shareholders of the Company		(4,006,389)	5,165,135
Holders of perpetual capital instruments		(39,266)	327,828
Non-controlling interests		(114,180)	1,250,456
		(4,159,835)	6,743,419

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
ASSETS			
Non-current assets:			
Property, plant and equipment	<i>14</i>	8,905,370	5,150,464
Right-of-use assets	<i>16</i>	953,159	567,414
Investment properties	<i>15</i>	701,651	872,622
Goodwill	<i>17</i>	4,212,037	4,213,729
Operating concessions	<i>18</i>	10,806,143	10,125,374
Other intangible assets	<i>19</i>	457,331	403,783
Investments in joint ventures	<i>20</i>	10,610,306	10,961,554
Investments in associates	<i>21</i>	3,782,687	6,535,839
Equity investments designated at fair value through other comprehensive income	<i>23</i>	900,874	1,171,428
Financial asset at fair value through profit or loss	<i>22</i>	–	52,268
Amounts due from contract customers	<i>25</i>	22,700,825	36,255,486
Receivables under service concession arrangements	<i>18</i>	58,470,512	53,218,131
Trade receivables	<i>26</i>	12,848,693	11,956,063
Prepayments, deposits and other receivables	<i>27</i>	1,574,914	2,138,861
Deferred tax assets	<i>40</i>	435,374	398,869
Total non-current assets		137,359,876	144,021,885
Current assets:			
Inventories	<i>24</i>	390,288	239,991
Amounts due from contract customers	<i>25</i>	4,391,268	3,798,733
Receivables under service concession arrangements	<i>18</i>	6,902,753	5,522,723
Trade receivables	<i>26</i>	11,900,693	8,890,896
Prepayments, deposits and other receivables	<i>27</i>	9,273,417	9,927,307
Restricted cash and pledged deposits	<i>29</i>	563,552	478,956
Cash and cash equivalents	<i>29</i>	13,163,864	10,742,695
Total current assets		46,585,835	39,601,301
TOTAL ASSETS		183,945,711	183,623,186

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	30	1,004,661	1,013,582
Perpetual capital instrument	34	1,187,358	1,216,904
Reserves	33	31,687,981	37,798,892
		33,880,000	40,029,378
Perpetual capital instruments	34	2,824,292	3,034,399
Non-controlling interests		22,759,209	20,484,977
		25,583,501	23,519,376
TOTAL EQUITY		59,463,501	63,548,754
Non-current liabilities:			
Other payables and accruals	42	775,586	807,543
Bank and other borrowings	35	55,270,466	45,842,406
Corporate bonds	36	10,817,388	16,851,404
Lease liabilities	16	220,565	108,268
Provision for major overhauls	38	415,532	302,166
Deferred income	39	1,206,712	1,489,354
Deferred tax liabilities	40	5,034,803	4,973,688
Total non-current liabilities		73,741,052	70,374,829
Current liabilities:			
Trade payables	41	22,638,089	25,071,178
Other payables and accruals	42	10,570,256	9,610,921
Income tax payables		1,432,226	1,580,336
Bank and other borrowings	35	8,554,871	10,831,453
Corporate bonds	36	7,452,619	149,632
Notes payable	37	–	2,438,588
Lease liabilities	16	93,097	17,495
Total current liabilities		50,741,158	49,699,603
TOTAL LIABILITIES		124,482,210	120,074,432
TOTAL EQUITY AND LIABILITIES		183,945,711	183,623,186

Xiong Bin
Director

Zhou Min
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Attributable to shareholders of the Company														Total equity HK\$'000			
	Notes	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Shares held	Share option	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Fair value reserve HK\$'000	Defined benefit plan reserve HK\$'000	Exchange fluctuation reserve HK\$'000	PRC reserve funds HK\$'000	Retained profits HK\$'000	Perpetual capital instrument HK\$'000		Perpetual capital instruments HK\$'000	Non-controlling interests HK\$'000	
					under share award scheme HK\$'000 (note 32)	and share award reserve HK\$'000 (note 33 (b))												
At 1 January 2022		1,013,582	2,891,059	4,105,569	(113,927)	139,761	(1,272,565)	122,482	(140,732)	(51,057)	759,407	3,293,484	28,065,411	1,216,904	40,029,378	3,034,399	20,484,977	63,548,754
Profit for the year		-	-	-	-	-	-	-	-	-	-	-	1,328,723	45,428	1,374,151	170,841	1,170,718	2,715,710
Other comprehensive income/(loss) for the year:																		
Exchange differences related to foreign operations		-	-	-	-	-	-	-	-	(4,922,513)	-	-	(29,546)	(4,952,059)	(210,107)	(1,284,898)	(6,447,064)	
Release upon disposal of subsidiaries	46	-	-	-	-	-	-	-	-	1,454	-	-	-	1,454	-	-	1,454	
Exchange reserve released upon deemed disposal of partial interest in an associate		-	-	-	-	-	-	-	-	(9,918)	-	-	-	(9,918)	-	-	(9,918)	
Changes in fair value of equity investments designated at fair value through other comprehensive income		-	-	-	-	-	-	(415,213)	-	-	-	-	-	(415,213)	-	-	(415,213)	
Share of other comprehensive loss of a joint venture		-	-	-	-	-	-	-	(4,804)	-	-	-	-	(4,804)	-	-	(4,804)	
Total comprehensive income/(loss) for the year		-	-	-	-	-	-	(415,213)	(4,804)	(4,930,977)	-	1,328,723	15,882	(4,006,389)	(39,266)	(114,180)	(4,159,835)	
Exercise of share awards	32	-	-	-	505	(424)	-	-	-	-	-	-	(81)	-	-	-	-	
Equity-settled share award arrangements	32(b)	-	-	-	-	42,462	-	-	-	-	-	-	-	42,462	-	-	42,462	
Shares purchased for share award scheme	32(a)	-	-	-	(42,942)	-	-	-	-	-	-	-	-	(42,942)	-	-	(42,942)	
Share of reserves of associates		-	-	-	-	323	(546,154)	-	-	-	-	-	-	(545,831)	-	-	(545,831)	
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(384,081)	(384,081)	
Capital contributions from non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	-	-	-	108,059	108,059	
Acquisition of subsidiaries	45	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,692,125	2,692,125	
Disposal of subsidiaries	46	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(27,691)	(27,691)	
Shares repurchased and cancelled	30	(8,921)	(154,523)	-	-	-	-	-	-	-	-	-	-	(163,444)	-	-	(163,444)	
Distributions declared to holders of perpetual capital instruments	34	-	-	-	-	-	-	-	-	-	-	-	(45,428)	(45,428)	(170,841)	-	(216,269)	
Final 2021 cash dividends paid	12	-	-	-	-	-	-	-	-	-	-	-	(679,100)	(679,100)	-	-	(679,100)	
Interim 2022 cash dividends paid	12	-	-	-	-	-	-	-	-	-	-	-	(708,706)	(708,706)	-	-	(708,706)	
Transfer to reserves		-	-	-	-	-	-	-	-	-	519,388	(519,388)	-	-	-	-	-	
At 31 December 2022		1,004,661	2,736,536*	4,105,569*	(156,364)*	182,122*	(1,818,719)*	122,482*	(555,945)*	(55,861)*	(4,171,570)*	3,812,872*	27,486,859*	1,187,358	33,880,000	2,824,292	22,759,209	59,463,501

* These reserve accounts comprise the consolidated reserves of HK\$31,687,981,000 (2021: HK\$37,798,892,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Attributable to shareholders of the Company															Total equity HK\$'000		
	Notes	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Shares held	Share option	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Fair value reserve HK\$'000	Defined benefit plan reserve HK\$'000	Exchange fluctuation reserve HK\$'000	PRC reserve funds HK\$'000	Retained profits HK\$'000	Perpetual capital instrument HK\$'000	Perpetual capital instruments HK\$'000		Non-controlling interests HK\$'000	
					under share award scheme HK\$'000 (note 32)	and share award reserve HK\$'000 (note 33 (b))												
At 1 January 2021		1,002,160	2,538,372	4,887,425	(121,268)	247,123	(275,383)	122,482	(24,693)	(56,414)	(290,924)	2,596,158	25,531,416	1,187,358	37,343,812	6,623,082	13,157,111	57,124,005
Profit for the year		-	-	-	-	-	-	-	-	-	-	-	4,147,377	48,563	4,195,940	211,473	1,060,508	5,467,921
Other comprehensive income/(loss) for the year:																		
Exchange differences related to foreign operations		-	-	-	-	-	-	-	-	1,050,337	-	-	29,546	1,079,883	116,355	189,948	1,386,186	
Release upon disposal of subsidiaries	46	-	-	-	-	-	-	-	-	(6)	-	-	(6)	-	-	-	(6)	
Changes in fair value of equity investments designated at fair value through other comprehensive income		-	-	-	-	-	-	(116,039)	-	-	-	-	-	(116,039)	-	-	(116,039)	
Share of other comprehensive income of a joint venture		-	-	-	-	-	-	-	5,357	-	-	-	-	5,357	-	-	5,357	
Total comprehensive income/(loss) for the year		-	-	-	-	-	-	(116,039)	5,357	1,050,331	-	4,147,377	78,109	5,165,135	327,828	1,250,456	6,743,419	
Issuance of a perpetual capital instrument	34	-	-	-	-	-	-	-	-	-	-	-	-	-	2,997,840	-	2,997,840	
Exercise of share options	31	11,422	352,687	-	-	(107,786)	-	-	-	-	-	-	-	256,323	-	-	256,323	
Exercise of share awards	32	-	-	-	44,189	(37,115)	-	-	-	-	-	-	(7,074)	-	-	-	-	
Equity-settled share award arrangements	32(b)	-	-	-	-	37,539	-	-	-	-	-	-	-	37,539	-	-	37,539	
Shares purchased for share award scheme	32(a)	-	-	-	(36,848)	-	-	-	-	-	-	-	-	(36,848)	-	-	(36,848)	
Share of reserves of associates		-	-	-	-	(227,219)	-	-	-	-	-	-	-	(227,219)	-	-	(227,219)	
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(328,066)	(328,066)	
Capital contributions from non-controlling equity holders		-	-	-	-	(769,963)	-	-	-	-	-	-	-	(769,963)	-	6,405,476	5,635,513	
Repayment of perpetual capital instruments		-	-	-	-	-	-	-	-	-	-	-	-	-	(6,702,878)	-	(6,702,878)	
Distributions declared to holders of perpetual capital instruments	34	-	-	-	-	-	-	-	-	-	-	-	(48,563)	(48,563)	(211,473)	-	(260,036)	
Final 2020 cash distributions paid	12	-	-	(781,856)	-	-	-	-	-	-	-	-	-	(781,856)	-	-	(781,856)	
Interim 2021 cash dividends paid	12	-	-	-	-	-	-	-	-	-	-	-	(908,982)	(908,982)	-	-	(908,982)	
Transfer to reserves		-	-	-	-	-	-	-	-	-	697,326	(697,326)	-	-	-	-	-	
At 31 December 2021		1,013,582	2,891,059*	4,105,569*	(113,927)*	139,761*	(1,272,565)*	122,482*	(140,732)*	(51,057)*	759,407*	3,293,484*	28,065,411*	1,216,904	40,029,378	3,034,399	20,484,977	63,548,754

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,797,043	6,932,145
Adjustments for:			
Bank interest income	6	(277,144)	(308,994)
Interest income on trade and other receivables with extended credit periods	6	(836,758)	(766,849)
Interest income on loans to joint ventures	6	(14,078)	(16,089)
Interest income on loans to an associate	6	(2,298)	(5,033)
Dividend income from equity investments at fair value through other comprehensive income	6	(22,531)	(28,461)
Fair value loss on investment properties	7	41,011	3,797
Gain on bargain purchase of subsidiaries	6	(186,687)	–
Loss/(gain) on disposal of subsidiaries, net	6,7	40,957	(431)
Loss on disposal of joint ventures	7	68,335	–
Loss on derecognition of BOT projects	7	–	133,724
Loss on deemed disposal of partial interest in an associate	7	1,090,953	–
Loss on remeasurement of a then associate	7	172,960	–
Loss on early redemption of asset-backed note	7	17,483	–
Loss on disposal of receivables under service concession arrangements	7	221,658	–
Gain on modification of a lease	6	(3,047)	–
Depreciation of right-of-use assets	7	77,528	44,990
Depreciation of property, plant and equipment	7	669,370	334,231
Amortisation of operating concessions	7	528,417	465,062
Amortisation of other intangible assets	7	58,446	50,805
Impairment of receivables under service concession arrangements, net	7	26,571	14,964
Impairment of amounts due from contract customers, net	7	137,565	3,066
Impairment of trade receivables, net	7	144,150	164,717
Impairment/(reversal of impairment) of other receivables, net	7	288,813	(2,499)
Provision for major overhauls	7	298,853	274,981
Loss/(gain) on disposal of items of property, plant and equipment, net	7	4,854	(5,343)
Equity-settled share award expenses	7	42,462	37,539
Finance costs	8	3,324,828	2,904,651
Share of profits and losses of joint ventures		(652,031)	(861,712)
Share of profits and losses of associates		(121,754)	(58,069)
Operating profit before working capital changes		8,935,929	9,311,192

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	<i>Note</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Operating profit before working capital changes		8,935,929	9,311,192
Increase in inventories		(66,937)	(3,447)
Decrease in amounts due from contract customers		7,635,724	3,306,768
Increase in receivables under service concession arrangements		(10,859,333)	(12,331,651)
Decrease/(increase) in trade receivables		(2,537,852)	1,494,153
Decrease in prepayments, deposits and other receivables		1,051,612	474,408
Decrease in trade payables		(968,456)	(1,970,895)
Increase/(decrease) in other payables and accruals		576,641	(1,242,673)
Utilisation of provision for major overhauls	38	(263,248)	(242,731)
Cash generated from/(used in) operations		3,504,080	(1,204,876)
Mainland China corporate income tax paid		(799,406)	(655,236)
Overseas taxes paid		(56,672)	(24,269)
Net cash flows generated from/(used in) operating activities		2,648,002	(1,884,381)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(462,884)	(182,775)
Purchases of leasehold land	<i>16</i>	(31,953)	(311,502)
Additions of operating concessions		(351,545)	(1,851,238)
Additions of other intangible assets		(184,141)	(15,158)
Acquisition of subsidiaries	<i>45</i>	1,008,093	–
Disposal of subsidiaries	<i>46</i>	(43,064)	59,306
Proceeds from disposal of other intangible assets	<i>19</i>	47,578	303
Proceeds from disposal of items of property, plant and equipment		166,649	88,091
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		19,423	151,733
Acquisition of/increase in investments in joint ventures		(102,773)	(301,663)
Acquisition of/increase in investments in associates		(424,061)	(95,325)
Purchases of equity investments designated at fair value through other comprehensive income	<i>23</i>	(207,955)	(20,514)
(Increase)/decrease in time deposits with maturity of more than three months when acquired		16,568	(18,640)
Decrease/(increase) in restricted cash and pledged deposits		(84,596)	112,586
Early redemption of asset-backed note		(718,105)	–
Proceeds from redemption of an asset-backed note	<i>22</i>	32,354	17,427
Dividends received from joint ventures		128,028	245,021
Dividends received from equity instruments at fair value through other comprehensive income		22,531	28,461
Bank interest received		277,144	308,994
Net cash flows used in investing activities		(892,709)	(1,784,893)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		108,059	5,635,513
Issuance of corporate bonds		2,272,178	4,253,139
Issuance of a perpetual capital instruments		–	2,997,840
Repayment of corporate bonds		(143,288)	(7,527,614)
Repayment of a note payable		(2,325,581)	–
Repayment of perpetual capital instrument	<i>34</i>	–	(6,702,878)
Distributions to holders of perpetual capital instruments	<i>34</i>	(187,252)	(200,835)
New bank and other borrowings		25,306,843	17,478,441
Repayment of bank and other borrowings		(18,176,526)	(11,726,836)
Proceeds from exercise of share options		–	256,323
Shares purchased for the share award scheme	<i>32</i>	(42,942)	(36,848)
Shares repurchased		(163,444)	–
Principal portion of lease payments		(71,717)	(27,900)
Interest paid		(3,253,286)	(2,816,360)
Distributions paid		(1,387,806)	(1,690,838)
Dividends paid to non-controlling equity holders		(384,081)	(328,066)
Net cash flows generated from/(used in) financing activities		1,551,157	(436,919)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		10,678,848	14,651,987
Effect of foreign exchange rate changes, net		(868,713)	133,054
CASH AND CASH EQUIVALENTS AT END OF YEAR		13,116,585	10,678,848
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	<i>29</i>	13,163,864	10,742,695
Less: Time deposits with maturity of more than three months when acquired		(47,279)	(63,847)
Cash and cash equivalents as stated in the consolidated statement of cash flows		13,116,585	10,678,848

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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;
- licensing of technical know-how related to sewage treatment in Mainland China; and
- provision of environmental hygiene services and hazardous waste treatment services in Mainland China.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

1. CORPORATE AND GROUP INFORMATION *(Continued)*

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	–	64.41	Sewage treatment
深圳北控豐泰投資有限公司 [#]	PRC/Mainland China	RMB70,000,000	–	64.41	Sewage treatment
綿陽中科成污水淨化有限公司 [#]	PRC/Mainland China	RMB40,000,000	–	64.41	Sewage treatment
廣州中業污水處理有限公司 [#]	PRC/Mainland China	RMB85,000,000	–	64.41	Sewage treatment
江油中科成污水淨化有限公司 [#]	PRC/Mainland China	RMB8,000,000	–	64.41	Sewage treatment
成都雙流中科成污水淨化有限公司 [#]	PRC/Mainland China	RMB30,000,000	–	64.41	Sewage treatment
青島膠南中科成污水淨化有限公司 [#]	PRC/Mainland China	RMB30,000,000	–	64.41	Sewage treatment
青島中科成污水淨化有限公司	PRC/Mainland China	RMB68,981,608/ RMB130,146,140	–	92.63	Sewage treatment
廣州中科成污水淨化有限公司 [#]	PRC/Mainland China	RMB40,000,000	–	64.41	Sewage treatment
台州市路橋中科成污水淨化有限公司 [#]	PRC/Mainland China	RMB55,500,000	–	64.41	Sewage treatment
成都龍泉中科成污水淨化有限公司 [#]	PRC/Mainland China	RMB27,600,000	–	64.41	Sewage treatment
荷澤中科成污水淨化有限公司 [#]	PRC/Mainland China	RMB30,000,000	–	64.41	Sewage treatment
濟南中科成水質淨化有限公司 [#]	PRC/Mainland China	RMB20,000,000	–	64.41	Sewage treatment
彭州中科成污水淨化有限公司 [#]	PRC/Mainland China	RMB50,000,000	–	64.41	Sewage treatment
佛山市三水中科成水質淨化有限公司 [#]	PRC/Mainland China	RMB76,000,000	–	64.41	Sewage treatment
永州市北控污水淨化有限公司 [□]	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	RMB131,710,300/ RMB1,000,000,000	–	57.97	Sewage treatment
百色中環水業有限公司 [□]	PRC/Mainland China	HK\$20,000,000	–	100	Sewage treatment

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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	
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	PRC/Mainland China	RMB127,178,541	80	–	Sewage treatment and reclaimed water treatment
廣西貴港北控水務有限公司	PRC/Mainland China	RMB83,184,898	–	41.21*	Sewage treatment and water distribution
Be Water S.A.	Portugal	€11,987,000	–	100	Sewage treatment and water distribution
北京北控污水淨化及回用有限公司	PRC/Mainland China	RMB26,360,000	–	100	Reclaimed water treatment
成都北控蜀都投資有限公司# ("Beikong Shudu")	PRC/Mainland China	RMB567,035,714/ RMB852,750,000	–	44.12*	Sewage treatment
北京建工環境發展有限責任公司# ("BCEG Environmental")	PRC/Mainland China	RMB690,000,000	–	38.65*	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 [□]	PRC/Mainland China	RMB100,000,000	–	70	Construction services
昆明捷運路橋發展有限公司 [□]	PRC/Mainland China	RMB150,000,000	–	70	Construction services
北控(洛陽)水環境開發有限公司	PRC/Mainland China	RMB300,000,000	–	100	Construction services
北京北控淨都水環境治理有限公司	PRC/Mainland China	RMB250,000,000	–	100	Construction services
佛山北控水環境開發有限公司 [□]	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	–	53.98	Water distribution
遵義北控水務有限公司	PRC/Mainland China	RMB50,236,000	80	–	Water distribution
德清達閩制水有限公司 [□]	PRC/Mainland China	US\$11,960,000	–	100	Water distribution

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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	
BEWGI-UE NEWater (S) Pte Ltd	Singapore	SGD100,000	–	80	Reclaimed water treatment
泉州安平供水有限公司 ^Ω	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	Consultancy services and investment holding
北控中科成環保集團有限公司* [@] ("BEWG Environmental")	PRC/Mainland China	RMB1,036,441,317/ RMB1,737,821,244	–	64.41	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	–	99.17	Consultancy services
北控水務(中國)投資有限公司 ^Ω	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	–	64.41	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	–	43.15*	Construction services
成都青白江中科成污水淨化有限公司 [#]	PRC/Mainland China	RMB40,000,000	–	64.41	Sewage treatment
錦州市小凌河北控水務有限公司	PRC/Mainland China	RMB66,500,000	–	100	Sewage treatment
廣安北控廣和水務有限公司 [#]	PRC/Mainland China	RMB70,000,000	–	64.41	Water distribution
北京稻香水質淨化有限公司 [#]	PRC/Mainland China	RMB58,000,000	–	64.41	Reclaimed water treatment
東莞市德高水務有限公司 ^Ω	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
北控彭州自來水有限公司 [#]	PRC/Mainland China	RMB73,600,000	–	45.09*	Water distribution
北控南陽水務集團有限公司 [#]	PRC/Mainland China	RMB102,626,900/ RMB156,626,900	–	28.28*	Water distribution

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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	
永州市水務運營發展有限責任公司	PRC/Mainland China	RMB360,672,900/ 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	–	56.98	Construction services
北控(濟源)污水淨化有限公司	PRC/Mainland China	RMB166,330,000	–	100	Sewage treatment
淇縣北控供水有限公司#	PRC/Mainland China	RMB10,000,000	–	51.53	Water distribution
淮安市水利勘測設計研究院有限公司	PRC/Mainland China	RMB10,000,000/ RMB50,000,000	–	70	Consultancy service
平陰北控水環境開發有限公司	PRC/Mainland China	RMB280,000,000	–	90	Construction services
鄒平北控水務有限公司#	PRC/Mainland China	RMB407,200,000	–	38.65*	Water distribution
瀘州北控環保工程投資有限公司#	PRC/Mainland China	RMB100,000,000	–	57.97	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	RMB191,160,060/ RMB220,013,000	–	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	–	78.78	Construction service
攀枝花北控水務有限公司#	PRC/Mainland China	RMB100,000,000	–	41.87*	Sewage treatment
北控(蘭考縣)污水處理有限公司	PRC/Mainland China	RMB85,500,000	–	100	Sewage treatment
濰坊北控水務發展有限公司	PRC/Mainland China	RMB104,335,780/ RMB130,000,000	–	100	Sewage treatment

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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	
北控城市資源集團有限公司 Beijing Enterprises Urban Resources Group Limited ("BEURG")	Cayman Islands	HK\$360,000,000	41.06 [^]	–	Environmental hygiene services, hazardous waste treatment services and waste electrical and electronic equipment treatment services and sale of dismantled products
Orgo Investments S.a.r.l	Luxembourg	EUR12,500	–	100	Investment holding
BEWG (PT) S.A.	Portugal	EUR50,000	–	100	Sewage treatment and investment holding
瀋陽紅菱姚千污水處理有限公司	PRC/Mainland China	RMB28,483,795	–	99.9	Sewage treatment
北京稻香水資源科技有限公司 [□]	PRC/Mainland China	RMB125,921,300	100	–	Reclaimed water treatment
合肥龍崗自來水有限公司	PRC/Mainland China	RMB50,000,000	–	70	Water distribution

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

[⊗] These entities are registered as Chinese-Foreign Equity Joint Venture enterprises under PRC law

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

[^] In May 2022, the Group entered into an acting in concert agreement with certain third parties ("Acting In Concert Parties") with 12.93% of the issued share capital of BEURG, a then 31.23% associate of the Group. Pursuant to the acting in concert agreement, each of the Acting In Concert Parties irrevocably and unconditionally undertook to the Group that it would act in concert with the Group with respect to BEURG whereby each of the Acting In Concert Parties would vote in the same manner as the Group in meetings of shareholders of BEURG. In June 2022, the Group and the Acting In Concert Parties further acquired shares in BEURG, and as at 30 June 2022, the Group and the Acting In Concert Parties held 41.06% and 19.49% of the issued share capital of BEURG, respectively. As a result, BEURG became a subsidiary of the Group. As at 31 December 2022, the Group and the Acting In Concert Parties held 41.06% and 23.65% of the issued share capital of BEURG, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

* *In June and July 2021, the non-controlling shareholder further made cash contributions of in aggregate of RMB4.5 billion to BEWG Environmental. Upon completion of the second capital injections, the Group's percentage of shareholding in BEWG Environmental was further diluted from 85.45% to 64.41%. As a result, the Group's percentage of shareholding in subsidiaries under BEWG Environmental was also further diluted accordingly.*

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.

(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 32)</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 a controlled structured entity of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2. BASIS OF PRESENTATION

Despite that the Group had net current liabilities of HK\$4.2 billion and capital commitments of approximately HK\$21.2 billion (comprising the Group's capital commitments and the Group's share of commitments made jointly with other joint ventures) in aggregate as at 31 December 2022, as detailed in note 50 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 2022 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 2023 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.

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 asset 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 2022. 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).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the “Conceptual Framework”) issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ²
HKFRS 17	<i>Insurance Contracts</i> ¹
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{1, 5}
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i> ⁶
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i> ^{2, 4}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i> ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ¹
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹

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

² Effective for annual periods beginning on or after 1 January 2024

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, 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 to align the corresponding wording with no change in conclusion

⁵ 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

⁶ An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 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 resulting from a downstream transaction 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 HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

Amendments to HKAS 1 Disclosure of Accounting Policies require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

The Group has applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group will recognise deferred tax for all temporary differences related to leases at the beginning of the earliest comparative period presented. During the year, the Group has performed a detailed assessment on the impact of amendments to HKAS 12. The Group has estimated that it will recognise a deferred tax asset of HK\$18,331,000 for deductible temporary differences associated with lease liabilities and a deferred tax liability of HK\$19,398,000 for taxable temporary differences associated with right-of-use assets, and recognise the cumulative effect of initially applying the amendments as an adjustment to retained profits at 1 January 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

Business combinations and goodwill

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 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 (2021: 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 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

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

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 2022

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:

Leasehold land	Over the lease terms
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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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 the 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.

Investment property

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessee (Continued)

(b) Lease liabilities

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

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

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

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

Group as a lessor

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessor (Continued)

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

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

Service concession arrangements

Consideration given by the grantor

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

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

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 “Revenue recognition” below.

Operating services

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

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

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

Intangible assets (other than goodwill)

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

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

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

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

Operating concessions

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

Patents

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Computer software

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

Research and development costs

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

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than goodwill, deferred tax assets, financial assets, investment properties and inventories), 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. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis, or, otherwise, to the smallest group of cash-generating units.

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 profit or loss in the period in which it arises, in those expense categories consistent with the function of the impaired asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of 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 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Initial recognition and measurement (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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

A 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

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

General approach

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

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 that there has been a significant increase in credit risk when contractual payments are past due more than the Group’s general expectations on the related financial instrument.

The Group considers a financial asset in default based on historical pattern and credit risk management practices of the Group. The Group has rebutted the 90 days past due presumption of default based on reasonable and supportable information, including the Group’s credit risk control practices and the historical recovery rate of financial assets over 90 days past due. 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.

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 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

Financial liabilities at amortised cost (loans and borrowings)

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in 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 2022

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 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Contract assets

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

Contract liabilities

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

Contract costs

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 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 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed. 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

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

The Group has 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 alternative 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 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers *(Continued)*

(a) Construction services

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

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

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

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

(c) Sales of water, machineries, refined chemical and other products

Revenue from the sales of water, machineries, refined chemical and other products 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, completed machineries, refined chemical and other products and the Group has a present right to payment and the collection of the consideration is probable.

(d) Provision of environmental hygiene services

Revenue from the provision of environmental hygiene services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

(e) Provision of hazardous waste treatment services

Revenue from the provision of hazardous waste treatment services is recognised at the point in time when the services are provided to the customers.

Revenue from other sources

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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.

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 in exchange 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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity compensation benefits *(Continued)*

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

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

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

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

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

Shares held under share award scheme

As disclosed in note 32 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

The functional currencies of certain Hong Kong, Mainland China and overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their profit or loss and statements of comprehensive income are translated into Hong Kong dollars at the exchange rates that approximate to those prevailing at the dates of the transactions. 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 2022

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Construction work and service contracts

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 2022 was HK\$4,212,037,000 (2021: HK\$4,213,729,000) in aggregate, details of which are set out in note 17 to the financial statements.

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

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

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

The policy for provision for expected credit losses on receivables under service concession arrangements, trade and other receivables and amounts due from contract customers of the Group is based on an ECL model. A considerable amount of estimation is required in assessing the available information which includes information about past events, current conditions and forecasts future economic conditions to estimate the ECL. The carrying amounts of receivables under service concession arrangements, trade receivables, other receivables and amounts due from contract customers carried as assets in the consolidated statement of financial position as at 31 December 2022 were HK\$65,373,265,000 (2021: HK\$58,740,854,000), HK\$24,749,386,000 (2021: HK\$20,846,959,000), HK\$6,634,836,000 (2021: HK\$8,527,754,000) and HK\$27,092,093,000 (2021: HK\$40,054,219,000), respectively, further details of which are set out in notes 18, 26, 27 and 25 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

Current tax and deferred tax

The Group is mainly 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 income tax payable carried as a liability in the consolidated statement of financial position as at 31 December 2022 was HK\$1,432,226,000 (2021: HK\$1,580,336,000).

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 2022 were HK\$435,374,000 (2021: HK\$398,869,000) and HK\$5,034,803,000 (2021: HK\$4,973,688,000), respectively, details of which are set out in note 40 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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;
- (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; and
- (d) the urban resources services segment engages in the provision of city cleaning and public hygiene services, hazardous waste treatment services, waste electrical and electronic equipment treatment services and sale of dismantled*.

* Newly acquired during the year

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2022

	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>	Urban resources services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue <i>(note 6)</i>	15,958,680	3,089,815	3,393,251	2,540,626	24,982,372
Cost of sales	(9,410,218)	(1,690,106)	(2,020,400)	(2,023,646)	(15,144,370)
Gross profit	6,548,462	1,399,709	1,372,851	516,980	9,838,002
Segment results:					
The Group	6,336,322	1,273,744	876,556	250,041	8,736,663
Share of profits and losses of:					
Joint ventures	477,661	211,119	(15,330)	(843)	672,607
Associates	31,024	5,182	(37,129)	–	(923)
	6,845,007	1,490,045	824,097	249,198	9,408,347
Corporate and other unallocated income and expenses, net					(2,520,756)
Share of profits of joint ventures and associates					102,101
Finance costs					(3,192,649)
Profit before tax					3,797,043
Income tax expense					(1,081,333)
Profit for the year					2,715,710
Profit for the year attributable to shareholders of the Company:					
Operating segments	5,587,698	1,102,619	653,643	48,136	7,392,096
Corporate and other unallocated items					(6,017,945)
					1,374,151

NOTES TO FINANCIAL STATEMENTS

31 December 2022

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2022 *(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>	Urban resources services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets:					
Operating segments	119,252,635	26,080,950	10,875,164	8,545,099	164,753,848
Corporate and other unallocated items					19,191,863
					183,945,711
Other segment information:					
Capital expenditure*					
– Operating segments	2,069,058	1,118,136	56,756	264,163	3,508,113
– Amount unallocated					71,596
					3,579,709
Depreciation					
– Operating segments	85,834	238,877	54,784	288,339	667,834
– Amount unallocated					79,064
					746,898
Amortisation of operating concessions	356,884	145,112	–	26,421	528,417
Amortisation of other intangible assets					
– Operating segments	11,114	8,264	2,039	481	21,898
– Amount unallocated					36,548
					58,446
Impairment/(reversal of impairment) of segment assets, net**					
– Operating segments	273,863	(20,890)	28,529	19,962	301,464
– Amount unallocated					295,635
					597,099
Provision for major overhauls	269,711	26,960	–	2,182	298,853

NOTES TO FINANCIAL STATEMENTS

31 December 2022

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2021

	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>	20,749,712	3,069,094	4,061,341	27,880,147
Cost of sales	(13,682,340)	(1,664,334)	(2,083,803)	(17,430,477)
Gross profit	7,067,372	1,404,760	1,977,538	10,449,670
Segment results:				
The Group	7,155,577	1,242,279	1,302,840	9,700,696
Share of profits and losses of:				
Joint ventures	680,161	172,883	11,162	864,206
Associates	13,551	2,342	934	16,827
	7,849,289	1,417,504	1,314,936	10,581,729
Corporate and other unallocated income and expenses, net				(969,587)
Share of profits of joint ventures and associates				38,748
Finance costs				(2,718,745)
Profit before tax				6,932,145
Income tax expense				(1,464,224)
Profit for the year				5,467,921
Profit for the year attributable to shareholders of the Company:				
Operating segments	6,161,833	1,008,317	1,151,320	8,321,470
Corporate and other unallocated items				(4,125,530)
				4,195,940

NOTES TO FINANCIAL STATEMENTS

31 December 2022

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2021 *(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	126,528,278	25,145,215	10,058,159	161,731,652
Corporate and other unallocated items				21,891,534
				183,623,186
Other segment information:				
Capital expenditure*				
– Operating segments	4,695,347	288,114	55,716	5,039,177
– Amount unallocated				209,802
				5,248,979
Depreciation				
– Operating segments	58,754	191,864	59,344	309,962
– Amount unallocated				69,259
				379,221
Amortisation of operating concessions	337,144	127,918	–	465,062
Amortisation of other intangible assets				
– Operating segments	1,932	3,646	3,364	8,942
– Amount unallocated				41,863
				50,805
Impairment of segment assets, net**				
– Operating segments	166,217	2,708	13,822	182,747
– Amount unallocated				(2,499)
				180,248
Provision for major overhauls	227,988	46,993	–	274,981

* 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 of receivables under service concession arrangements, amounts due from contract customers, trade receivables and other receivables.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

5. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue from external customers:		
Mainland China	23,436,091	26,265,120
Elsewhere	1,546,281	1,615,027
	24,982,372	27,880,147
Non-current assets:		
Mainland China	39,199,215	37,456,537
Portugal	483,004	517,368
Australia	497,187	578,287
Elsewhere	249,278	278,587
	40,428,684	38,830,779

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 2022, the Group had no transaction with any single external customer which contributed over 10% of the Group's total revenue for the year (2021: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

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

	2022 HK\$'000	2021 HK\$'000
Revenue from contracts with customers		
Sewage and reclaimed water treatment services	9,873,665	8,145,080
Construction services	6,085,015	12,604,632
Water distribution services	3,089,815	3,069,094
Technical and consultancy services and sale of machineries	3,393,251	4,061,341
Environmental hygiene services	2,091,240	–
Hazardous waste treatment services and sale of refined chemical and other products	449,386	–
	24,982,372	27,880,147

Imputed interest income under service concession arrangements amounting to HK\$3,531,519,000 (2021: HK\$3,390,411,000) 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, technical and consultancy services and environmental hygiene services are recognised over time. Revenue of water distribution services, hazardous waste treatment services and sale of machineries, refined chemical and other products are recognised at a point in time.

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

(ii) Performance obligations

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 2022 was HK\$261 billion (2021: HK\$233 billion). The performance obligations expected to be satisfied 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 2022

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest income		
Bank interest income	277,144	308,994
Interest income on trade and other receivables with extended credit periods	836,758	766,849
Interest income on loans to joint ventures ^π	14,078	16,089
Interest income on loans to an associate [#]	2,298	5,033
	1,130,278	1,096,965
Other income		
Gross rental income	27,634	28,202
Government grants [§]	244,260	167,876
Sludge treatment income	145,688	154,329
Pipeline installation income	307,211	332,251
Dividend income from equity investments at fair value through other comprehensive income	22,531	28,461
Others	508,443	531,579
	1,255,767	1,242,698
Gains, net		
Gain on bargain purchase of subsidiaries <i>(note 45)</i>	186,687	–
Gain on disposal of subsidiaries, net <i>(note 46)</i>	–	431
Gain on modification of a lease	3,047	–
Foreign exchange gain	42,769	–
Gain on disposal of items of property, plant and equipment	–	5,343
	232,503	5,774
Other income and gains, net	1,488,270	1,248,472

π *The interest income recognised mainly represented the interest income on loans to joint ventures of the Group, as further detailed in note 20(d)(i) to the financial statements.*

The interest income recognised mainly represented the interest income on loans to an associate of the Group, as further detailed in note 21(b)(i) to the financial statements.

§ *The government grants recognised during the current and prior years represented grants received from certain government authorities in respect of the fulfilment of certain specific duties by the Group.*

NOTES TO FINANCIAL STATEMENTS

31 December 2022

7. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cost of sewage and reclaimed water treatment services rendered		4,084,868	3,265,409
Cost of construction services		4,968,465	10,079,786
Cost of water distribution services		1,544,994	1,536,417
Cost of technical and consultancy services rendered and machineries sold		2,020,400	2,083,803
Cost of environmental hygiene services		1,630,705	–
Cost of hazardous waste treatment services and sale of refined chemical and other products		392,941	–
Depreciation of property, plant and equipment	<i>14</i>	669,370	334,231
Depreciation of right-of-use assets	<i>16</i>	77,528	44,990
Amortisation of operating concessions*	<i>18</i>	528,417	465,062
Amortisation of other intangible assets*	<i>19</i>	58,446	50,805
Lease payments not included in the measurement of lease liabilities	<i>16</i>	11,332	2,449
Auditor's remuneration		12,000	12,000
Employee benefit expense (including directors' remuneration (<i>note 9</i>)):			
Salaries, allowances and benefits in kind		4,052,578	2,767,280
Equity-settled share award expense	<i>32(b)</i>	42,462	37,539
Pension scheme contributions [#]		423,154	300,227
Welfare and other expenses		700,058	517,120
		5,218,252	3,622,166
Impairment of receivables under service concession arrangements, net	<i>18(b)</i>	26,571	14,964
Impairment of amounts due from contract customers, net	<i>25</i>	137,565	3,066
Impairment of trade receivables, net	<i>26(c)</i>	144,150	164,717
Impairment/(reversal of impairment) of other receivables, net	<i>27(d)</i>	288,813	(2,499)

NOTES TO FINANCIAL STATEMENTS

31 December 2022

7. PROFIT FROM OPERATING ACTIVITIES *(Continued)*

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Provision for major overhauls	38	298,853	274,981
Foreign exchange difference, net		(42,769)	11,402
Loss on disposal of joint ventures		68,335	–
Loss on derecognition of BOT projects		–	133,724
Loss/(gain) on disposal of subsidiaries, net	46	40,957	(431)
Loss/(gain) on disposal of items of property, plant and equipment, net		4,854	(5,343)
Loss on deemed disposal of partial interest in an associate		1,090,953	–
Loss on remeasurement of an associate		172,960	–
Loss on early redemption of asset-backed note	22	17,483	–
Loss on disposal of receivables under service concession arrangements		221,658	–
Fair value loss on investment properties	15	41,011	3,797
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		3,917	3,664

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

There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2022 HK\$'000	2021 HK\$'000
Interest on bank and other loans	2,377,196	1,911,963
Interest on corporate bonds	771,177	805,205
Interest on notes payable	125,023	147,787
Interest on lease liabilities	11,685	6,426
Total interest expense	3,285,081	2,871,381
Increase in discounted amounts of provision for major overhauls arising from the passage of time (note 38)	39,747	33,270
Total finance costs	3,324,828	2,904,651
Less: Interest included in cost of construction services	(132,179)	(185,906)
	3,192,649	2,718,745

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 2022 HK\$'000	2021 HK\$'000
Fees	1,240	1,350
Other emoluments:		
Salaries, allowances and benefits in kind	30,434	23,419
Equity-settled share award expense	7,533	1,782
Pension scheme contributions	260	305
	38,227	25,506
	39,467	26,856

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 2022					
Executive directors:					
Mr. Li Yongcheng	–	–	–	–	–
Mr. Xiong Bin <i>(Chairman)</i>	–	–	–	–	–
Mr. Jiang Xinhao	–	–	–	–	–
Mr. Zhou Min <i>(Chief Executive Officer)</i>	120	17,538	4,346	130	22,134
Mr. Li Haifeng	120	6,806	652	18	7,596
Mr. Zhang Tiefu	40	739	–	–	779
Mr. Ke Jian	–	–	–	–	–
Ms. Sha Ning	–	–	–	–	–
Mr. Tung Woon Cheung Eric	120	–	362	–	482
Mr. Li Li	120	5,351	2,173	112	7,756
	520	30,434	7,533	260	38,747
Non-executive director:					
Mr. Zhao Feng	25	–	–	–	25
Mr. Wang Dianchang	95	–	–	–	95
	120	–	–	–	120
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	–	–	120
Mr. Zhang Gaobo	150	–	–	–	150
Mr. Guo Rui	120	–	–	–	120
Mr. Wang Kaijun	80	–	–	–	80
Mr. Chau On Ta Yuen	120	–	–	–	120
Mr. Dai Xiaohu	10	–	–	–	10
	600	–	–	–	600
Total	1,240	30,434	7,533	260	39,467

NOTES TO FINANCIAL STATEMENTS

31 December 2022

9. DIRECTORS' REMUNERATION *(Continued)*

Notes:

- (1) Mr. Xiong Bin is appointed as executive director and chairman with effect from 11 July 2022.
- (2) Mr. Li Yongcheng is resigned as executive director and chairman with effect from 11 July 2022.
- (3) Mr. Zhang Tiefu is resigned as executive director with effect from 29 April 2022.
- (4) Mr. Zhao Feng is resigned as non-executive director with effect from 15 March 2022.
- (5) Mr. Wang Dianchang is appointed as non-executive director with effect from 15 March 2022.
- (6) Mr. Dai Xiaohu is appointed as an independent non-executive director with effect from 30 November 2022.
- (7) Mr. Wang Kaijun is resigned as an independent non-executive director with effect from 31 August 2022.
- (8) Dr. Lee Man Chun Raymond resigned as an independent non-executive director with effect from 23 April 2021.
- (9) Mr. Chau On Ta Yuen is appointed as an independent non-executive director with effect from 23 April 2021.
- (10) Mr. Zhao Feng appointed as a non-executive director with effect from 1 January 2021.
- (11) Mr. Li Yongcheng, Mr. Xiong Bin, Ms. Sha Ning, Mr. Jiang Xinhao and Mr. Ke Jian waived directors' remuneration for the years ended 31 December 2022 and 2021 amounting to HK\$65,000, HK\$65,000, HK\$120,000, HK\$120,000 and HK\$120,000, respectively. Except for the above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year (2021: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 2021					
Executive directors:					
Mr. Li Yongcheng (<i>Chairman</i>)	–	–	–	–	–
Mr. Jiang Xinhao	–	–	–	–	–
Mr. Zhou Min (<i>Chief Executive Officer</i>)	120	12,377	–	126	12,623
Mr. Li Haifeng	120	3,985	764	18	4,887
Mr. Zhang Tiefu	120	1,949	594	53	2,716
Mr. Ke Jian	–	–	–	–	–
Ms. Sha Ning	–	–	–	–	–
Mr. Tung Woon Cheung Eric	120	–	424	–	544
Mr. Li Li	120	5,108	–	108	5,336
	600	23,419	1,782	305	26,106
Non-executive director:					
Mr. Zhao Feng	120	–	–	–	120
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
Mr. Chau On Ta Yuen	70	–	–	–	70
Dr. Lee Man Chun Raymond	50	–	–	–	50
	630	–	–	–	630
Total	1,350	23,419	1,782	305	26,856

NOTES TO FINANCIAL STATEMENTS

31 December 2022

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2021: three directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining two (2021: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	5,543	5,695
Performance related bonuses	3,779	3,871
Equity-settled share award expense	–	764
Pension scheme contributions	301	296
	9,623	10,626

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	
	2022	2021
HK\$4,500,001 to HK\$5,000,000	2	1
HK\$5,500,001 to HK\$6,000,000	–	1
	2	2

NOTES TO FINANCIAL STATEMENTS

31 December 2022

11. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2022 (2021:16.5%).

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 environmental protection, energy and water conservation; 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.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current – Hong Kong	8,656	8,636
Current – Mainland China	739,822	776,500
Current – Elsewhere	35,582	31,674
Underprovision in prior years	–	42
Deferred (<i>note 40</i>)	297,273	647,372
Total tax charge for the year	1,081,333	1,464,224

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 2022

	Hong Kong and overseas		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(1,244,946)		5,041,989		3,797,043	
Tax expense/(credit) at the statutory tax rate	(232,226)	18.7	1,261,213	25.0	1,028,987	27.1
Lower tax rates of specific provinces or enacted by local authorities	-	-	(201,317)	(4.0)	(201,317)	(5.3)
Tax concession	-	-	(197,657)	(3.9)	(197,657)	(5.2)
Profits and losses attributable to joint ventures and associates	(10,469)	0.8	(192,337)	(3.8)	(202,806)	(5.3)
Income not subject to tax	(13,534)	1.1	(85,876)	(1.7)	(99,410)	(2.6)
Expenses not deductible for tax	405,041	(32.5)	353,140	7.0	758,181	20.0
Withholding tax of 5% on the distributable profit of the Group's PRC subsidiary and joint venture	-	-	3,532	0.1	3,532	0.1
Tax losses utilised from previous periods	-	-	(24,892)	(0.5)	(24,892)	(0.7)
Tax losses not recognised as deferred tax assets	9,563	(0.8)	7,152	0.1	16,715	0.4
Tax expense at the Group's effective tax rate	158,375	(12.7)	922,958	18.3	1,081,333	28.5

NOTES TO FINANCIAL STATEMENTS

31 December 2022

11. INCOME TAX EXPENSE *(Continued)*

Year ended 31 December 2021

	Hong Kong and overseas		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(555,021)		7,487,166		6,932,145	
Tax expense/(credit) at the statutory tax rate	(155,572)	28.0	1,968,752	26.3	1,813,180	26.2
Lower tax rates of specific provinces or enacted by local authorities	-	-	(212,306)	(2.8)	(212,306)	(3.1)
Tax concession	-	-	(171,623)	(2.3)	(171,623)	(2.5)
Adjustments in respect of current tax of previous periods	-	-	42	-	42	-
Profits and losses attributable to joint ventures and associates	(10,273)	1.9	(246,206)	(3.3)	(256,479)	(3.6)
Income not subject to tax	(8,875)	1.6	(119,662)	(1.6)	(128,537)	(1.9)
Expenses not deductible for tax	189,174	(34.1)	252,246	3.4	441,420	6.4
Withholding tax of 5% on the distributable profit of the Group's PRC subsidiary and joint venture	-	-	9,465	0.1	9,465	0.1
Tax losses utilised from previous periods	-	-	(94,753)	(1.3)	(94,753)	(1.4)
Tax losses not recognised as deferred tax assets	33,653	(6.1)	30,162	0.4	63,815	0.9
Tax expense at the Group's effective tax rate	48,107	(8.7)	1,416,117	18.9	1,464,224	21.1

The share of tax attributable to associates and joint ventures amounting to HK\$44,575,000 (2021: HK\$47,551,000) and HK\$100,470,000 (2021: HK\$198,655,000), respectively, is included in "share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

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12. CASH DIVIDENDS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interim – HK7.0 cents (2021: HK9.0 cents) per ordinary share	708,706	908,982
Proposed final – HK8.7 cents (2021: HK6.7 cents) per ordinary share	874,055	679,100
	1,582,761	1,588,082

The proposed final cash dividends 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 is based on the profit for the year attributable to shareholders of the Company, adjusted to reflect the distribution related to the perpetual capital instrument, for the year ended 31 December 2022, and the weighted average number of 10,120,832,644 (2021: 10,053,900,041) ordinary shares in issue less the weighted average number of 38,651,088 (2021: 41,392,772) ordinary shares held under the share award scheme of the Company during the year.

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

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13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(Continued)

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

	2022 HK\$'000	2021 HK\$'000
Earnings		
Profit for the year attributable to shareholders of the Company	1,374,151	4,195,940
Distribution related to the perpetual capital instrument	(45,428)	(48,563)
Profit used in the basic earnings per share calculation	1,328,723	4,147,377
Effect of dilution on earnings in respect of share options of an associate	(862)	—*
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	1,327,861	4,147,377
	2022	2021
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	10,082,181,556	10,012,507,269
Effect of dilution on weighted average number of ordinary shares		
– Share options which have dilutive effect	7,416,688	58,751,632
– Share awards which have dilutive effect	34,361	2,016,699
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	10,089,632,605	10,073,275,600

* Because the diluted earnings per share amount is increased when taking the effect of dilution on earnings in respect of share options of an associate into account for the year ended 31 December 2021, the effect of dilution on earnings in respect of share options of an associate had an anti-dilutive effect and was ignored in the calculation of diluted earnings per share.

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14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, and sewage and water pipelines <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2022							
At 1 January 2022:							
Cost	2,962,324	153,746	2,507,633	398,091	418,703	593,317	7,033,814
Accumulated depreciation and impairment	(673,432)	(91,884)	(646,934)	(233,485)	(237,615)	–	(1,883,350)
Net carrying amount	2,288,892	61,862	1,860,699	164,606	181,088	593,317	5,150,464
Net carrying amount:							
At 1 January 2022	2,288,892	61,862	1,860,699	164,606	181,088	593,317	5,150,464
Acquisition of subsidiaries (<i>note 45</i>)	705,006	31,189	667,658	19,836	897,266	1,080,796	3,401,751
Additions	447,719	141,760	557,640	214,686	162,039	80,951	1,604,795
Depreciation provided during the year	(161,935)	(43,605)	(172,485)	(74,040)	(217,305)	–	(669,370)
Disposal of subsidiaries (<i>note 46</i>)	–	–	–	(603)	(165)	–	(768)
Disposals	(5,994)	–	(145,603)	(2,838)	(17,068)	–	(171,503)
Reclassification from investment properties (<i>note 15</i>)	71,395	–	–	–	–	–	71,395
Transfers and reclassifications	(34)	7,927	12,753	(2,483)	9,983	(28,146)	–
Exchange realignment	(185,644)	(7,708)	(152,599)	(13,514)	(24,533)	(97,396)	(481,394)
At 31 December 2022	3,159,405	191,425	2,628,063	305,650	991,305	1,629,522	8,905,370
At 31 December 2022:							
Cost	4,038,852	344,442	3,823,967	593,705	1,934,421	1,629,522	12,364,909
Accumulated depreciation and impairment	(879,447)	(153,017)	(1,195,904)	(288,055)	(943,116)	–	(3,459,539)
Net carrying amount	3,159,405	191,425	2,628,063	305,650	991,305	1,629,522	8,905,370

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31 December 2022

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 2021							
At 1 January 2021:							
Cost	2,989,389	147,790	1,815,193	380,490	398,976	568,210	6,300,048
Accumulated depreciation	(636,548)	(77,131)	(480,259)	(203,844)	(202,037)	–	(1,599,819)
Net carrying amount	2,352,841	70,659	1,334,934	176,646	196,939	568,210	4,700,229
Net carrying amount:							
At 1 January 2021	2,352,841	70,659	1,334,934	176,646	196,939	568,210	4,700,229
Additions	55,376	2,391	87,264	41,431	31,565	20,054	238,081
Depreciation provided during the year	(123,223)	(15,467)	(109,634)	(40,729)	(45,178)	–	(334,231)
Disposal of subsidiaries <i>(note 46)</i>	–	–	–	(63)	(46)	–	(109)
Disposals	(60,098)	–	(2,925)	(15,222)	(4,503)	–	(82,748)
Reclassification from right-of-use assets	–	–	502,856	–	–	–	502,856
Transfers and reclassifications	–	–	1,120	81	159	(1,360)	–
Exchange realignment	63,996	4,279	47,084	2,462	2,152	6,413	126,386
At 31 December 2021	2,288,892	61,862	1,860,699	164,606	181,088	593,317	5,150,464
At 31 December 2021:							
Cost	2,962,324	153,746	2,507,633	398,091	418,703	593,317	7,033,814
Accumulated depreciation and impairment	(673,432)	(91,884)	(646,934)	(233,485)	(237,615)	–	(1,883,350)
Net carrying amount	2,288,892	61,862	1,860,699	164,606	181,088	593,317	5,150,464

At 31 December 2022, certain land use rights and certain buildings situated in Mainland China with an aggregate carrying amount of HK\$1,026,767,000 (2021: HK\$969,182,000) were pledged to secure certain bank and other loans granted to the Group (note 35).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

15. INVESTMENT PROPERTIES

	2022 HK\$'000	2021 HK\$'000
Carrying amount at 1 January	872,622	855,598
Transfer to property, plant and equipment (<i>note 14</i>)	(71,395)	–
Fair value loss on revaluation	(41,011)	(3,797)
Exchange realignment	(58,565)	20,821
Carrying amount at 31 December	701,651	872,622

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. During the year, certain portion of the office building has been used by the Group. As a result, the related fair value of the building of HK\$71,395,000 was transferred from investment properties to property, plant and equipment.
- (b) The investment properties are leased to third parties and associates under operating lease arrangements, further summary of which are included in note 16 to the financial statements.
- (c) As at 31 December 2022, one of the Group's investment properties with a carrying amount of HK\$475,472,000 (2021: HK\$523,785,000) was pledged to a bank to secure a bank loan granted to the Group (note 35).
- (d) The Group's investment properties were revalued on 31 December 2022 and 2021 by Beijing North Asia Asset Assessment Firm, independent professionally qualified valuers, at HK\$701,651,000 (2021: HK\$872,622,000). 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 (2021: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

15. INVESTMENT PROPERTIES *(Continued)*

Notes: *(Continued)*

(d) *(Continued)*

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 2021	855,598
Net loss from a fair value adjustment recognised in other income and gains in profit or loss	(3,797)
Exchange realignment	20,821
Carrying amount at 31 December 2021 and 1 January 2022	872,622
Net loss from a fair value adjustment recognised in other income and gains in profit or loss	(41,011)
Transfer to property, plant and equipment	(71,395)
Exchange realignment	(58,565)
Carrying amount at 31 December 2022	701,651

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	Range	
		31 December 2022	31 December 2021
Income capitalisation method	Daily estimated rental value (per sq. m)	RMB4.26 to RMB12.00	RMB4.65 to RMB16.39
	Rent growth	2% from 2024	2% from 2023
	Discount rate	5.5%	5.5%

NOTES TO FINANCIAL STATEMENTS

31 December 2022

15. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

(d) *(Continued)*

Fair value hierarchy disclosure *(Continued)*

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

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

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

16. LEASES

The Group as a lessee

The Group has lease contracts for office building and various items of machinery, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 20-50 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 2-15 years, whichever is shorter

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

16. LEASES *(Continued)*

(a) Right-of-use assets

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

	Office building <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Leasehold land <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Machinery, sewage and water pipelines <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2021	74,944	243	204,718	4,258	502,856	787,019
Reclassification to property, plant and equipment	–	–	–	–	(502,856)	(502,856)
Additions	8,238	117	311,502	2,812	–	322,669
Depreciation charge	(19,662)	(184)	(21,697)	(3,447)	–	(44,990)
Exchange realignment	(2,836)	(9)	8,527	(110)	–	5,572
As at 31 December 2021 and 1 January 2022	60,684	167	503,050	3,513	–	567,414
Arising from acquisition <i>(note 45)</i>	83,706	–	283,194	50,563	–	417,463
Additions	77,662	23	31,953	1,407	6,420	117,465
Depreciation charge	(44,600)	(39)	(20,782)	(8,363)	(3,744)	(77,528)
Lease modification	(228)	–	–	(7,180)	–	(7,408)
Exchange realignment	(9,826)	(10)	(51,480)	(2,870)	(61)	(64,247)
As at 31 December 2022	167,398	141	745,935	37,070	2,615	953,159

At 31 December 2022, certain of the Group's prepaid land lease payments with a net carrying amount of HK\$66,485,000 (2021: Nil) were pledged to secure certain bank borrowings granted to the Group (note 35).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

16. LEASES *(Continued)*

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Carrying amount at 1 January	125,763	408,924
Arising from acquisition of subsidiaries <i>(note 45)</i>	205,592	–
Lease modification	(10,455)	–
Reclassification to other loans	–	(264,748)
New leases	85,512	11,167
Accretion of interest recognised during the year	11,685	6,426
Payments	(83,402)	(34,326)
Exchange realignment	(21,033)	(1,680)
Carrying amount at 31 December	313,662	125,763
Analysed into:		
Current portion	93,097	17,495
Non-current portion	220,565	108,268

The maturity analysis of lease liabilities is disclosed in note 53 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

16. LEASES *(Continued)*

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on lease liabilities	11,685	6,426
Depreciation charge of right-of-use assets	77,528	44,990
Expense relating to short-term leases (included in administrative expenses)	11,332	2,449
Total amount recognised in profit or loss	100,545	53,865

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

The Group as a lessor

The Group leases its investment properties (note 15) consisting of certain floors and portion of its office building and a commercial building in the PRC under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was HK\$27,634,000 (2021: HK\$28,202,000), details of which are included in note 6 to the financial statements.

At 31 December 2022, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within one year	7,211	5,029
In the second to fifth years, inclusive	10,516	1,990
Beyond five years	4,176	–
	21,903	7,019

NOTES TO FINANCIAL STATEMENTS

31 December 2022

17. GOODWILL

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	4,213,729	4,183,392
Acquisition of subsidiaries (<i>note 45</i>)	126,490	–
Exchange realignment	(128,182)	30,337
At 31 December	4,212,037	4,213,729

Impairment testing of goodwill

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Sewage and reclaimed water treatment and construction services segment	1,992,205	2,016,041
Water distribution services segment	1,068,720	1,002,864
Technical and consultancy services and sale of machineries segment	1,151,112	1,194,824
	4,212,037	4,213,729

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 (2021: Valtech Valuation Advisory Limited), independent professionally qualified valuers, based on fair value less costs of disposal using cash flow projections which are based on financial forecasts approved by senior management covering a period of 10 years and based on the assumption that the sizes of the operations remain constant perpetually. The post-tax discount rates applied to the cash flow projections ranged from 9.4% to 10.8% (2021: 9.1% to 11.0%) 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 1% to 3% (2021: 1% to 2.5%) 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 2022 (2021: 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 2022

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

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

- **Discount rates**
 - The discount rates used are after tax and reflect specific risks of the respective segments.
 - The pre-tax discount rates applied in the cash flow projections ranged from 11.51% to 13.31% (2021: 11.13% to 14.64%) for the business units of the sewage and reclaimed water treatment and construction services segment, the water distribution services segment, and the technical and consultancy services and sale of machineries segment.
- **Business environment**
 - There have been no major changes in the existing political, legal and economic conditions in Mainland China, Singapore, Portugal, Australia and New Zealand.

18. SERVICE CONCESSION ARRANGEMENTS

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

A summary of the major terms of the principal service concession arrangements as at 31 December 2022 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
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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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>							
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.	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
17.	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
18.	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
19.	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
20.	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
21.	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
22.	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
23.	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
24.	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
25.	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
26.	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
27.	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

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18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
28.	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
29.	棗莊北控智信水務有限公司	棗莊市區供水廠	Zaozhuang, Shandong Province, the PRC	棗莊市人民政府	BOT on water distribution	110,000	30 years from 2013 to 2043
30.	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
31.	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
32.	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
33.	常德北控碧海水務有限責任公司	常德柳葉湖污水廠	Changde, Hunan Province, the PRC	常德市市政公用事業管理局	TOT on sewage treatment	100,000	15 years from 2016 to 2031
34.	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
35.	延吉京城環保產業有限公司	延吉污水處理廠一期	Yanji, Jilin Province, the PRC	延吉市人民政府	TOT on sewage treatment	100,000	30 years from 2014 to 2044
36.	永州市北控污水淨化有限公司	永州市冷水灘區下河線污水處理廠	Yongzhou, Hunan Province, the PRC	湖南省永州市公用事業管理局	BOT on sewage treatment	100,000	30 years from 2008 to 2038
37.	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
38.	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
39.	內蒙古泰弘生態環境發展股份有限公司	包頭市大青山生態應急水源工程	Baotou, Inner Mongolia, the PRC	包頭市人民政府	BOT on water supply	190,000	30 years from 2012 to 2042
40.	Macarthur Water Pty Ltd.	Macarthur	Sydney, Australia	Sydney Water	BOT on water supply	265,000	35 years from 1995 to 2030

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31 December 2022

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>							
41.	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
42.	永州水務向家亭水質淨化有限公司	向家亭污水處理廠提標改造工程	Yongzhou, Hunan Province, the PRC	永州市城市管理行政執法局	BOT on sewage treatment	100,000	27 years from 2019 to 2045
43.	湖南北控水務發展有限公司	長沙市敢勝坑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
44.	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
45.	洛陽北控原水有限公司	洛陽市故縣水庫引水工程	Luoyang, Henan Province, the PRC	洛陽市水務局	BOT on water supply	432,000	50 years from 2021 to 2069
46.	廣州增城北控水處理有限公司	廣東增城區中心城區污水處理系統工程一期	Guangzhou, Guangdong Province, the PRC	廣州市增城區水務設施管理師	BOT on sewage treatment	150,000	27 years from 2021 to 2048
47.	赤峰北控三座店供水有限公司	內蒙赤峰三座店水利樞紐中心城區引供水工程	Chifeng, Inner Mongolia, the PRC	赤峰市水利局	BOT on water supply	122,320	23 years from 2020 to 2043
48.	成都龍泉北控水務有限公司	陡溝河污水處理廠二廠	Chengdu, Sichuan Province, the PRC	成都市龍泉驛區水務局	BOT on sewage treatment	100,000	28 years from 2021 to 2048
49.	湖南北控水務發展有限公司	蘇托坑污水處理廠	Changsha, Hunan Province, the PRC	長沙市住房和城鄉建設委員會	BOT on sewage treatment	100,000	26 years from 2021 to 2045
50.	青島中科成污水淨化有限公司	膠州污水處理廠三期	Jiaozhou, Shandong Province, the PRC	膠州市城鄉建設局	BOT on sewage treatment	100,000	30 years from 2020 to 2050
51.	北控(洛陽)水務發展有限公司	洛陽市新區污水處理廠二期	Luoyang, Henan Province, the PRC	洛陽市水務局	BOT on sewage treatment	100,000	30 years from 2020 to 2050
52.	銀川瀚寧水務有限公司	寧夏回族自治區銀川市第一再生水廠	Yinchuan, Ningxia Hui Nationality Autonomous Region, the PRC	銀川市市政管理局	BOT on reclaimed water treatment	300,000	30 years from 2022 to 2052
53.	濟源北控制水有限公司	濟源市第三水廠一期	Jiyuan, Henan Province, the PRC	濟源市住房和城鄉建設局	BOT on water supply	150,000	30 years from 2020 to 2049

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31 December 2022

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>							
54.	鞍山市北水鞍達水務發展有限公司	鞍山城域達道溝污水處理廠	Anshan, Liaoning Province, the PRC	鞍山市住房和城乡建设局	TOT on sewage treatment	100,000	30 years (Not yet started)
55.	三河北控燕郊自來水有限公司	三河市燕郊供水項目	Sanhe, Hebei Province, the PRC	三河市水務局	TOT on water supply	210,000	30 years (Not yet started)
Joint ventures:							
56.	伊犁北控水務有限公司	伊寧市城市地表水供水項目	Yining, Xinjiang Uyghur Autonomous Region, the PRC	伊寧市水務局	BOT on water supply	200,000	30 years from 2019 to 2049
57.	大慶市北控水務有限公司	大慶市光明污水處理廠	Daqing, Heilongjiang Province, the PRC	大慶市城市管理委員會	BOT on sewage treatment	165,000	30 years from 2019 to 2049
58.	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
59.	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
60.	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
61.	邢臺北控水務有限公司	河北邢臺召馬地表水廠第一期	Xingtai, Hebei Province, the PRC	邢臺市水務局	BOT on water supply	150,000	30 years from 2017 to 2047

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

Pursuant to the service concession agreements entered into by the Group, the Group is granted the rights to use the property, plant and equipment of the Facilities and the related land, which are generally registered under the names of the relevant companies in the Group, during the service concession periods, but the Group is generally required to surrender these assets to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods. As at 31 December 2022, 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

At 31 December 2022, 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\$25,896,810,000 (2021: HK\$33,971,243,000) were pledged to secure certain bank loans granted to the Group (note 35).

As further explained in the accounting policy for “Service concession arrangements” set out in note 3.4 to the financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate. The following is the summarised information of the intangible asset component (operating concessions) and the financial asset component (receivables under service concession arrangements) with respect to the Group’s service concession arrangements:

Operating concessions

	2022 HK\$'000	2021 HK\$'000
At 1 January:		
Cost	11,992,040	6,938,581
Accumulated amortisation	(1,866,666)	(1,382,216)
Net carrying amount	10,125,374	5,556,365
Net carrying amount:		
At 1 January	10,125,374	5,556,365
Additions	1,790,773	4,922,694
Amortisation provided during the year <i>(note 7)</i>	(528,417)	(465,062)
Acquisition of subsidiaries <i>(note 45)</i>	246,954	–
Exchange realignment	(828,541)	111,377
At 31 December	10,806,143	10,125,374
At 31 December:		
Cost	13,232,274	11,992,040
Accumulated amortisation	(2,426,131)	(1,866,666)
Net carrying amount	10,806,143	10,125,374

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Receivables under service concession arrangements	65,661,911	59,002,929
Impairment <i>(note (b))</i>	(288,646)	(262,075)
	65,373,265	58,740,854
Portion classified as current assets	(6,902,753)	(5,522,723)
	58,470,512	53,218,131

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Billed:		
Within 3 months	2,370,152	2,248,972
4 to 6 months	2,055,861	1,471,753
7 to 12 months	1,134,759	935,770
Over 1 year	1,341,981	866,228
	6,902,753	5,522,723
Unbilled:		
Non-current portion*	58,470,512	53,218,131
Total	65,373,265	58,740,854

* The non-current portion receivables represented contract assets as the rights to considerations have yet to be unconditional.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At 1 January	262,075	247,111
Impairment losses, net	26,571	14,964
At 31 December	288,646	262,075

The increase (2021: increase) in the loss allowance was due to the changes in the gross carrying amount of the receivables under service concession arrangements mainly attributable to the acquisition of TOT projects and commencement of operations of BOT projects.

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2022, the probability of default applied ranged from 0.11% to 1.81% (2021: 0.06% to 3.51%), and the loss given default was estimated to be ranged from 54.70% to 64.90% (2021: 54.67% to 64.87%).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: *(Continued)*

(b) *(Continued)*

Set out below is the information about the credit risk exposure of the Group's receivables under service concession arrangements using the probability of default approach:

As at 31 December 2022

	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 2022	11,005	251,070	–	–	262,075
New assets originated	1,715	12,414	–	–	14,129
Repaid (excluding write-offs)	(8,604)	–	–	–	(8,604)
Transfers to Stage 2	(2,884)	2,884	–	–	–
Loss allowance recognised	18,663	2,383	–	–	21,046
At 31 December 2022	19,895	268,751	–	–	288,646

As at 31 December 2021

	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 2021	8,881	238,230	–	–	247,111
New assets originated	10,359	1,565	–	–	11,924
Repaid (excluding write-offs)	(8,090)	(1,294)	–	–	(9,384)
Loss allowance recognised	(145)	12,569	–	–	12,424
At 31 December 2021	11,005	251,070	–	–	262,075

NOTES TO FINANCIAL STATEMENTS

31 December 2022

19. OTHER INTANGIBLE ASSETS

	Patents <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2022			
At 1 January 2022:			
Cost	10,858	604,967	615,825
Accumulated amortisation	(3,762)	(208,280)	(212,042)
Net carrying amount	7,096	396,687	403,783
Net carrying amount:			
At 1 January 2022	7,096	396,687	403,783
Acquisition of subsidiaries (<i>note 45</i>)	–	7,856	7,856
Additions	–	184,141	184,141
Disposal	–	(47,578)	(47,578)
Disposal of subsidiaries (<i>note 46</i>)	–	(1)	(1)
Amortisation provided during the year	(1,165)	(57,281)	(58,446)
Exchange realignment	(1,308)	(31,116)	(32,424)
At 31 December 2022	4,623	452,708	457,331
At 31 December 2022:			
Cost	9,320	713,393	722,713
Accumulated amortisation	(4,697)	(260,685)	(265,382)
Net carrying amount	4,623	452,708	457,331

NOTES TO FINANCIAL STATEMENTS

31 December 2022

19. OTHER INTANGIBLE ASSETS *(Continued)*

	Patents <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2021			
At 1 January 2021:			
Cost	10,610	450,071	460,681
Accumulated amortisation	(2,761)	(98,992)	(101,753)
Net carrying amount	7,849	351,079	358,928
Net carrying amount:			
At 1 January 2021	7,849	351,079	358,928
Additions	9	88,195	88,204
Disposal	–	(303)	(303)
Amortisation provided during the year	(952)	(49,853)	(50,805)
Exchange realignment	190	7,569	7,759
At 31 December 2021	7,096	396,687	403,783
At 31 December 2021:			
Cost	10,858	604,967	615,825
Accumulated amortisation	(3,762)	(208,280)	(212,042)
Net carrying amount	7,096	396,687	403,783

NOTES TO FINANCIAL STATEMENTS

31 December 2022

20. INVESTMENTS IN JOINT VENTURES

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Investments in joint ventures, included in non-current assets:			
Share of net assets		10,133,429	10,462,262
Goodwill on acquisition	<i>(c)</i>	476,877	499,292
		10,610,306	10,961,554
Due from joint ventures, included in current assets	<i>(d), 27</i>	1,227,971	1,556,305
Due to joint ventures, included in current liabilities	<i>(d), 42</i>	(1,327,332)	(1,401,678)
Total interests in joint ventures		10,510,945	11,116,181

Particulars of the Group's interests in the major joint ventures are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Percentage of			Principal activities
			Ownership interest attributable to the Group	Voting power	Profit sharing	
Guiyang BEWG#*	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)投資合夥企業 (有限合夥)*	PRC/ Mainland China	RMB706,000,000/ RMB726,000,000	6.5	(a)	(a)	Fund investment
北京北控國壽投資基金管理中心 (有限合夥)*	PRC/ Mainland China	RMB3,483,365,000/ 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.*

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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 2022, the total investment contributed by the preferential limited partner and the Group as a deferred limited partner in the Junyue Fund amounted to RMB559 million (2021: RMB545 million) and RMB147 million (2021: RMB83 million), respectively. During the year, according to the resolution approved by all the partners, the registered capital of Junyue Fund has been revised from RMB628 million to RMB726 million.

The preferential limited partner shall have priority to be entitled to the expected principal and return among all the partners in distribution and dissolution. In the event of loss, the loss shall be shared by all the partners in accordance with the percentage of capital contribution.

In January 2021, China Life (as defined below) has acquired all the equity interests from the preferential limited partner. According to the equity transfer agreement, the new preferential limited partner, China Life, will not entitle to any undertakings provided by the deferred limited partners.

As all the significant relevant activities of the Junyue Fund require the unanimous consent from all limited partners, the Junyue Fund is accounted for as a joint venture.

- (b) In 2017, the Group (as intermediate limited partner) entered into a master limited partnership agreement (“China Life Partnership Agreement”) with China Life Insurance Company Limited (“China Life”) (as preferential limited partner) and a joint venture investor (as deferred limited partner) in relation to the establishment and management of a master fund. The master fund shall focus on investing in water and water environmental comprehensive projects which had been invested by different subordinated funds in Mainland China.

Pursuant to the China Life Partnership Agreement, the aggregate capital commitment of the master fund was approximately RMB24 billion. As at 31 December 2022, the total investment contributed by China Life in the master fund amounted to approximately RMB3,481 million (2021: RMB3,364 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 2022 and 2021.

China Life shall have priority to be entitled to the expected principal and return among all the partners in distribution and dissolution. In the event of loss, China Life shall share the loss lastly.

As all the significant relevant activities of the master fund require the unanimous consent from all limited partners, the master fund is accounted for as a joint venture.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

20. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

(c) The movements in the goodwill included in the investments in joint ventures during the year are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	499,292	491,464
Exchange realignment	(22,415)	7,828
At 31 December	476,877	499,292

(d) (i) Included in the amounts due from joint ventures of the Group as at 31 December 2022 included (i) an advance to a joint venture of US\$ 26,390,000 (equivalent to HK\$205,755,000 (2021: US\$26,390,000 (equivalent to HK\$205,842,000))). The amount is unsecured, bearing floating interest at LIBOR plus 1.5% (2021: 1.5%) per annum, and is repayable on demand. Interest income of HK\$6,770,000 (2021: HK\$4,731,000) was recognised in profit or loss during the year ended 31 December 2022; and (ii) an advance to a joint venture of RMB122,500,000 (equivalent to HK\$139,205,000) (2021: RMB122,500,000 (equivalent to HK\$148,963,000)). The amount is unsecured, bearing interest at 4.9% per annum, and repayable on demand. Interest income of HK\$7,308,000 (2021: HK\$6,248,000) was recognised in in profit or loss during the year ended 31 December 2022.

(ii) Other than the above balances and those mentioned in note 6 to the financial statements, the amounts due from/to joint ventures included in current assets and current liabilities of the Group as at 31 December 2022 and 2021 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 2022 and 2021, the loss allowance was assessed to be minimal.

(e) The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Share of the joint ventures' profits and losses for the year	652,031	861,712
Share of the joint ventures' total comprehensive income for the year	647,227	867,069
Aggregate carrying amount of the Group's investments in the joint ventures	10,610,306	10,961,554

NOTES TO FINANCIAL STATEMENTS

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21. INVESTMENTS IN ASSOCIATES

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
Investments in associates, included in non-current assets:			
Share of net assets		3,355,102	5,863,502
Goodwill on acquisition	<i>(d)</i>	427,585	672,337
	<i>(e)</i>	3,782,687	6,535,839
Due from associates, included in current assets	<i>(b), 27</i>	242,681	859,000
Due to associates, excluding trade payables, included in current liabilities	<i>(b), 42</i>	(70,262)	(69,768)
Total investments in associates		3,955,106	7,325,071

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		
Shandong Hi-Speed New Energy Group Limited* ("SDHS New Energy") (formerly known as "Beijing Enterprises Clean Energy Group Limited")	Cayman Islands	HK\$112,329,436	18.03	18.03	18.03	Management of photovoltaic power business, wind power business, and clean heat supply business	
長沙威保特環保科技股份有限公司*	PRC/ Mainland China	RMB242,680,000/ RMB242,680,000	40.0	40.0	40.0	Provision of environmental hygiene services, sewage treatment services and others	
金科環境股份有限公司*	PRC/ Mainland China	RMB102,760,000/ RMB102,760,000	17.15	17.15	17.15	Provision of environmental protection services, sewage treatment service and others	

* In the opinion of the directors, these associates were not individually material to the Group in the current and prior years. Hence, no disclosure of its financial information has been made.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

21. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

- (b) (i) Included in the amounts due from associates of the Group as at 31 December 2021 were advances to an associate of RMB200,000,000 (equivalent to HK\$243,902,000) bearing interest at 8% per annum and repayable on demand; and RMB500,000,000 (equivalent to HK\$609,756,000) bearing interest at 8% per annum and repayable in 2022. Both balances were settled during the year. Interest income of totaling HK\$2,298,000 (2021: HK\$5,033,000) was recognised in profit or loss during the year ended 31 December 2022
- (ii) Other than the above balances and those mentioned in note 6 to the financial statements, the amounts due from/to associates included in current assets and current liabilities of the Group as at 31 December 2022 and 2021 are unsecured, interest-free and repayable on demand. There were no recent history of default and past due amounts for the amounts due from associate. As at 31 December 2022 and 2021, 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 41 to the financial statements.
- (d) The movements in the goodwill included in the investments in associates during the year are as follows:

	2022 HK\$'000	2021 HK\$'000
Cost and net carrying amount:		
At 1 January	672,337	670,699
Deemed disposal (note)	(238,203)	–
Exchange realignment	(6,549)	1,638
At 31 December	427,585	672,337

Note:

On 19 May 2022, SDHS New Energy issued and allotted 48,804,039,247 new shares to Profit Plan Global Investment Limited, an independent third party of the Group, at the subscription price of HK\$0.096 per subscription share for the total consideration of HK\$4,685,188,000. Accordingly, the Company's indirect equity interest in SDHS New Energy was diluted from 31.88% to approximately 18.03%, resulting in a loss on deemed disposal of partial interest in an associate of HK\$1,090,953,000 and derecognition of goodwill upon deemed disposal of HK\$238,203,000 during the year ended 31 December 2022.

- (e) The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2022 HK\$'000	2021 HK\$'000
Share of the associates' profits and losses for the year	121,754	58,069
Share of the associates' total comprehensive income	(224,682)	225,488
Aggregate carrying amount of the Group's investments in associates	3,782,687	6,535,839

NOTES TO FINANCIAL STATEMENTS

31 December 2022

22. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 HK\$'000	2021 HK\$'000
Asset-backed note, at fair value	–	52,268

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. On 25 April 2022, the above asset-backed note was early redeemed its principal amount at face value by the issuer which is a subsidiary of the Group, resulting in a loss on early redemption of HK\$17,483,000 (note 7).
- (b) The fair values of the asset-backed note was estimated on 31 December 2021 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 believed that the estimated fair values resulting from the valuation technique, which were recorded in the consolidated statement of financial position, and the related changes in fair values, which were recorded in profit or loss, were reasonable, and that they were the most appropriate values at the end of the reporting period. During the year ended 31 December 2021, the related changes in fair value were not significant to the Group.

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 (2021: Nil).

Set out below is a summary of the valuation technique used and the key inputs to the valuation of financial asset at fair value through profit or loss together with a quantitative sensitivity analysis as at 31 December 2021:

Valuation technique	Significant unobservable input		Sensitivity of fair value to the input
Monte Carlo simulation	Default rate	0.33%	5% increase/decrease in default rate would result in decrease in fair value by HK\$14,000/increase in fair value by HK\$13,000
	Recovery rate	35.13%	5% increase/decrease in recovery rate would result in increase in fair value by HK\$8,000/decrease in fair value by HK\$12,000

NOTES TO FINANCIAL STATEMENTS

31 December 2022

22. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Notes: (Continued)

(b) *(Continued)*

The movements in fair value measurements within Level 3 are as follows:

	<i>HK\$'000</i>
At 1 January 2021	68,036
Redemption for the year	(17,427)
Exchange realignment	1,659
	52,268
At 31 December 2021 and 1 January 2022	52,268
Redemption for the year	(32,354)
Loss on early redemption (<i>note 7</i>)	(17,483)
Exchange realignment	(2,431)
At 31 December 2022	–

NOTES TO FINANCIAL STATEMENTS

31 December 2022

23. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 HK\$'000	2021 HK\$'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value	167,237	619,512
Unlisted equity investments, at fair value	733,637	551,916
	900,874	1,171,428

- (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 have been estimated using the market approach and by reference to the quoted market price and were classified as Level 2 in 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 2022 and 2021 by Beijing North Asia Asset Assessment Firm, using the market approach were classified as Level 3 in 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 (2021: enterprise value to earnings before interest and taxes (“EV/EBIT”) and P/B multiple), for each comparable company identified. The multiple is then discounted for considerations such as illiquidity based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding net assets of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

23. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

(b) *(Continued)*

Set out 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 2022 and 2021:

Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Valuation multiples	Average P/B multiple of peers	2022: 0.7x to 3.4x (2021: 0.7x to 3.2x)	5% increase/decrease in multiple would result in increase/ decrease in fair value by HK\$11,790,000 (2021: HK\$6,664,000)
	Average EV/EBIT multiple of peers	2022: N/A (2021: 11.9x to 51.4x)	5% increase/decrease in multiple would result in increase/ decrease in fair value by nil (2021:HK\$8,219,000)
	Discount for lack of marketability	2022: 14.8% to 35.7% (2021: 8.2% to 27.6%)	5% increase/decrease in discount would result in decrease/ increase in fair value by HK\$3,296,000 (2021: HK\$2,635,000)

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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>HK\$'000</i>
At 1 January 2021	467,710
Additions	18,556
Disposals	(979)
Exchange realignment	4,349
At 31 December 2021 and 1 January 2022	489,636
Acquisition of subsidiaries <i>(note 45)</i>	5,882
Additions	207,955
Transfer from Level 1	418,960
Fair value losses recognised in other comprehensive income	(418,960)
Disposals	(19,423)
Exchange realignment	(12,693)
At 31 December 2022	671,357

During the year ended 31 December 2022, the fair value measurement of a listed equity investment designated at fair value through other comprehensive income amounting to HK\$418,960,000 was transferred from Level 1 to Level 3 because the related investment was delisted in 2022. Except for the aforementioned transfer, 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 (2021: Nil).

24. INVENTORIES

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	390,288	239,991

NOTES TO FINANCIAL STATEMENTS

31 December 2022

25. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Contract costs arising from construction services provided plus recognised profits less recognised losses to date	27,375,266	40,199,827
Impairment (<i>note</i>)	(283,173)	(145,608)
	27,092,093	40,054,219
Portion classified as current assets	(4,391,268)	(3,798,733)
	22,700,825	36,255,486

Amounts due from contract customers are initially recognised for revenue earned from the construction services as the receipt of consideration is conditional on successful completion of construction. Upon completion of construction and acceptance by the customer, the amounts recognised as amounts due from contract customers are reclassified to contract assets included in receivables under service concession arrangements and operating concession for BOT arrangements and trade receivables for other construction contracts when the rights to considerations are unconditional. The decrease in amounts due from contract customers in 2022 was the result of completion of certain comprehensive renovation projects during the year, the related amounts due from contract customers were transferred to trade receivables upon completion. During the year ended 31 December 2022, HK\$137,565,000 (2021: HK\$3,066,000) 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 26 to the financial statements, respectively.

As at 31 December 2022, amounts due from contract customers of HK\$59,398,000 (2021: HK\$40,599,000) were designated as a charge for the repayment of corporate bonds, details of which are disclosed in note 36 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

25. AMOUNTS DUE FROM CONTRACT CUSTOMERS *(Continued)*

Note: The movements in the loss allowance for impairment of amounts due from contract customers are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At 1 January	145,608	142,542
Impairment losses, net	137,565	3,066
At 31 December	283,173	145,608

The increase in loss allowance was due to an increase in credit risk of certain aged overdue receivables (2021: no significant changes in loss allowance).

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 2022, the probability of default applied ranged from 0.11% to 29.20% (2021: 0.06% to 0.79%) and the loss given default was estimated to range from 54.70% to 64.90% (2021: 54.67% to 64.87%).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

25. 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 HK\$'000	Stage 2 Collective HK\$'000	Stage 3 Collective HK\$'000	POCI HK\$'000	Total HK\$'000
As at 31 December 2022					
ECL allowance as at 1 January 2022	15,442	130,166	–	–	145,608
New assets originated	1,237	–	–	–	1,237
Repaid (excluding write-offs)	(4,100)	–	–	–	(4,100)
Loss allowance recognised	3,178	137,250	–	–	140,428
At 31 December 2022	15,757	267,416	–	–	283,173
	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 2021					
ECL allowance as at 1 January 2021	13,327	129,215	–	–	142,542
New assets originated	810	–	–	–	810
Repaid (excluding write-offs)	(7,684)	–	–	–	(7,684)
Loss allowance recognised	8,989	951	–	–	9,940
At 31 December 2021	15,442	130,166	–	–	145,608

NOTES TO FINANCIAL STATEMENTS

31 December 2022

26. TRADE RECEIVABLES

	2022 HK\$'000	2021 HK\$'000
Trade receivables	25,252,182	21,225,699
Impairment (note (c))	(502,796)	(378,740)
	24,749,386	20,846,959
Portion classified as current assets	(11,900,693)	(8,890,896)
Non-current portion	12,848,693	11,956,063

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, urban resources 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, who 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% (2021: 4.8% to 15.0%) per annum, all other trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2022 HK\$'000	2021 HK\$'000
Billed:		
Within 3 months	4,731,537	3,621,667
4 to 6 months	1,825,015	1,263,653
7 to 12 months	2,260,847	1,588,437
Over 1 year	3,083,294	2,417,139
Balance with an extended credit period	33,729	36,197
	11,934,422	8,927,093
Unbilled*	12,814,964	11,919,866
	24,749,386	20,846,959

- * The unbilled balance was attributable to certain construction services rendered under contracts for comprehensive renovation projects which will be billed in accordance with the repayment terms stipulated in relevant construction service agreements entered into between the Group and the contract customers.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

26. TRADE RECEIVABLES *(Continued)*

Notes: *(Continued)*

- (b) Included in the trade receivables of the Group as at 31 December 2022 was an aggregate amount of HK\$2,718,000 (2021: HK\$2,917,000) due from 北京北控環保工程技術有限公司, a wholly-owned subsidiary of Beijing Enterprises Holdings Limited ("BEHL"), which is a substantial beneficial shareholder of the Company, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group. The balance is unsecured, interest-free and repayable on credit terms similar to those offered to the major customers of the Group.
- (c) The movements in the Group's the loss allowance for impairment of trade receivables during the year are as follows:

	2022 HK\$'000	2021 HK\$'000
At 1 January	378,740	231,779
Impairment losses, net	144,150	164,717
Exchange realignment	(20,094)	(17,756)
At 31 December	502,796	378,740

The increase (2021: increase) in the loss allowance was due to increase in credit risk of certain aged overdue receivables.

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The 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 2022, the probability of default applied ranged from 0.11% to 29.20% (2021: 0.06% to 15.33%) and the loss given default was estimated to range from 54.30% to 64.90% (2021: 54.67% to 64.87%).

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 2022					
ECL allowance as at 1 January 2022	221,683	157,057	–	–	378,740
New assets originated	3,841	–	–	–	3,841
Repaid (excluding write-offs)	(3,631)	–	–	–	(3,631)
Transfer to Stage 2	(2,166)	2,166	–	–	–
Loss allowance recognised	34,082	109,858	–	–	143,940
Exchange realignment	(3,442)	(16,652)	–	–	(20,094)
At 31 December 2022	250,367	252,429	–	–	502,796

NOTES TO FINANCIAL STATEMENTS

31 December 2022

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(c) *(Continued)*

	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 2021					
ECL allowance as at 1 January 2021	24,330	6,899	200,550	–	231,779
New assets originated	6,157	–	–	–	6,157
Repaid (excluding write-offs)	(8,761)	–	–	–	(8,761)
Loss allowance recognised	197,515	170,356	(200,550)	–	167,321
Exchange realignment	2,442	(20,198)	–	–	(17,756)
At 31 December 2021	221,683	157,057	–	–	378,740

- (d) The Group did not hold any material collateral or other credit enhancements over trade receivable balances.
- (e) At 31 December 2022, certain trade receivables of the Group with an aggregate carrying amount of HK\$1,874,035,000 (2021: Nil) were pledged to secure certain bank loans granted to the Group (note 35).
- (f) As at 31 December 2021, trade receivables of HK\$985,664,000 were designated as a charge for the repayment of the MYR Bonds, details of which are disclosed in note 36 to the financial statements. No trade receivable was pledged for the MYR Bonds as at 31 December 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Prepayments		748,404	560,715
Deposits and other debtors	<i>(a)</i>	5,676,277	6,389,348
Advances to subcontractors and suppliers	<i>(b)</i>	3,465,091	2,977,699
Due from joint ventures	<i>20(d)</i>	1,227,971	1,556,305
Due from associates	<i>21(b)</i>	242,681	859,000
Due from non-controlling equity holders	<i>(c)</i>	244,448	248,950
Due from other related parties	<i>28</i>	270,804	247,455
		11,875,676	12,839,472
Impairment	<i>(d)</i>	(1,027,345)	(773,304)
		10,848,331	12,066,168
Portion classified as current assets		(9,273,417)	(9,927,307)
Non-current portion		1,574,914	2,138,861

Notes:

(a) The Group's deposits and other debtors as at 31 December 2022 and 2021 included, inter alia, the following:

- (i) loans and related interest receivables of HK\$188,121,000 (2021: HK\$482,374,000) in aggregate provided to various government authorities in Mainland China as part of the construction funding for certain comprehensive renovation projects undertaken by these government authorities. Certain of these loans are bear interest at 4.75% (2021: 4.75% to 10%) per annum.

The above loans and the corresponding interest receivables of nil (2021: HK\$12,195,000) in aggregate are repayable within one year after the reporting period and are classified as current assets, and HK\$188,121,000 (2021: HK\$470,179,000) in aggregate are classified as non-current assets. The above balances are secured by proceeds from the disposal of certain land use rights owned by the relevant government authorities in Mainland China. HK\$274,574,000 was settled during the year ended 31 December 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(a) *(Continued)*

- (ii) a loan amount of HK\$171,909,000 (2021: HK\$171,366,000) provided to a former joint venture partner, for capital injection of the joint venture which was disposed of by the Group in prior years. The balance is secured, bears interest at 12% per annum and is repayable on demand and is classified as a non-current asset.
- (iii) investment deposit of nil (2021: HK\$120,386,000) in aggregate paid to independent third parties and injected to a company in connection with the Group's acquisition of the controlling equity interests in certain water distribution and consultancy operations in the PRC. The balance was fully impaired during the year ended 31 December 2022 (2021: Nil)
- (iv) investment/bidding deposits of HK\$75,919,000 (2021: HK\$123,494,000) in aggregate paid to certain government authorities in the PRC for acquiring certain sewage and reclaimed water treatment operations, of which HK\$75,919,000 (2021: HK\$122,884,000) and nil (2021: HK\$610,000) are classified as current and non-current assets, respectively.
- (v) consideration receivable amounting to nil (2021: HK\$141,746,000) in aggregate from the disposal of parcels of land in the PRC which was classified as a non-current asset. The balance was fully impaired during the year ended 31 December 2022 (2021: Nil)
- (b) Included in the Group's advances to subcontractors and suppliers were advance payments in an aggregate amount of HK\$358,489,000 (2021: HK\$384,720,000) 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\$358,489,000 (2021: HK\$384,720,000) 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 42).
- (c) A loan and related interest receivables of HK\$61,521,000 (2021: HK\$66,023,000) were provided to a non-controlling equity holder of a subsidiary. The balance is unsecured, bears interest of the benchmark interest rate for 3 to 5-year RMB loans published by the People's Bank of China increased by 25% per annum and is repayable on demand and is classified as a current asset.
- (d) The movements in the loss allowance for impairment of other receivables are as follows:

	2022 HK\$'000	2021 HK\$'000
At 1 January	773,304	762,948
Impairment losses/(reversal of impairment), net	288,813	(2,499)
Exchange realignment	(34,772)	12,855
At 31 December	1,027,345	773,304

NOTES TO FINANCIAL STATEMENTS

31 December 2022

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(d) *(Continued)*

The increase in the loss allowance was due to a significant increase in credit risk of certain aged overdue receivables (2021: no material change in the loss allowance).

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 2022, the probability of default applied ranged from 0.11% to 100% (2021: 0.06% to 100%) and the loss given default was estimated to range from 54.30% to 100% (2021: 54.31% to 64.87%).

Set out below is the information about the credit risk exposure of the Group's deposits and other receivables using the probability of default approach:

	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 2022					
ECL allowance as at 1 January 2022	200,202	23,235	549,867	–	773,304
New assets originated	29	356	–	–	385
Repaid (excluding write-offs)	(648)	(65)	–	–	(713)
Transfer to Stage 3	–	(1,040)	1,040	–	–
Loss allowance recognised	3,214	5,520	280,407	–	289,141
Exchange realignment	(4,994)	(1,045)	(28,733)	–	(34,772)
At 31 December 2022	197,803	26,961	802,581	–	1,027,345
As at 31 December 2021					
ECL allowance as at 1 January 2021	193,855	40,513	528,580	–	762,948
New assets originated	899	–	–	–	899
Repaid (excluding write-offs)	(521)	(24,824)	–	–	(25,345)
Transfer to Stage 2	(26)	26	–	–	–
Loss allowance recognised	1,530	7,138	13,279	–	21,947
Exchange realignment	4,465	382	8,008	–	12,855
At 31 December 2021	200,202	23,235	549,867	–	773,304

NOTES TO FINANCIAL STATEMENTS

31 December 2022

28. BALANCES WITH RELATED PARTIES

The balances with related parties are unsecured, interest-free and are repayable on demand, except for 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, 26, 27, 41 and 42 to the financial statements, respectively.

29. RESTRICTED CASH AND PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cash and bank balances:		
Placed in banks	12,183,017	9,748,802
Placed in a financial institution (<i>note 51</i>)	1,379,904	1,357,603
Time deposits:		
Placed in banks	164,495	115,246
Total cash and bank balances	13,727,416	11,221,651
Less: Restricted cash and pledged deposits (<i>note (a)</i>)	(563,552)	(478,956)
Cash and cash equivalents	13,163,864	10,742,695

Notes:

- (a) The Group's restricted cash and pledged deposits as at 31 December 2022 included the following:
- (i) bank deposits of HK\$388,367,000 (2021: HK\$465,361,000) which could only be used for the construction of sewage treatment facilities and other infrastructural facilities undertaken by the Group.
 - (ii) bank deposits of HK\$11,324,000 (2021: HK\$13,595,000) pledged to banks for the issuance of guarantees and to secure certain banking facilities granted to the Group (*note 35*).
 - (iii) bank deposits of HK\$22,053,000 (2021: Nil) were made to the banks for the bill facilities granted.
 - (iv) bank deposits of HK\$141,808,000 (2021: Nil) were designated as a charge for the repayment of corporate bonds (*note 36*).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

29. RESTRICTED CASH AND PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

(Continued)

Notes: (Continued)

- (b) As at 31 December 2022, the cash and bank balances of the Group denominated in RMB amounted to approximately HK\$11,772,730,000 (2021: HK\$10,045,191,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and 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.

30. SHARE CAPITAL

Shares

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Authorised:		
15,000,000,000 ordinary shares of HK\$0.10 each	1,500,000	1,500,000
Issued and fully paid:		
10,046,609,871 (2021: 10,135,821,871) ordinary shares of HK\$0.10 each	1,004,661	1,013,582

NOTES TO FINANCIAL STATEMENTS

31 December 2022

30. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

A summary of the movements in the Company's issued share capital during the years ended 31 December 2022 and 2021 is as follows:

	<i>Notes</i>	Number of ordinary shares in issue	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2021		10,021,595,871	1,002,160	2,538,372	3,540,532
Exercise of share options	<i>(b)</i>	114,226,000	11,422	352,687	364,109
At 31 December 2021 and 1 January 2022		10,135,821,871	1,013,582	2,891,059	3,904,641
Share repurchased and cancelled	<i>(a)</i>	(89,212,000)	(8,921)	(154,523)	(163,444)
At 31 December 2022		10,046,609,871	1,004,661	2,736,536	3,741,197

Notes:

- (a) During the year ended 31 December 2022, the Company repurchased 89,212,000 ordinary shares on the Stock Exchange for a total consideration of HK\$163,444,000 (after expenses). The purchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value of approximately HK\$8,921,000. The premium paid on the repurchase of the shares of HK\$154,523,000 were charged into the share premium of the Company.
- (b) During the year ended 31 December 2021, the subscription rights attaching to 114,226,000 share options were exercised at a subscription price of HK\$2.244 per ordinary share during that year, resulting in the issue of 114,226,000 ordinary shares of the Company for a total cash consideration of approximately HK\$256,323,000 (before expenses). At the time when the share options were exercised, the aggregate fair value of these share options of HK\$107,786,000 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 31 to the financial statements.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

31. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the directors and independent non-executive directors of the Company, and other employees of the Group. The Scheme became effective on 28 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

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

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to five years and ends on a date which is not later than 10 years from the date of grant of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the closing price of ordinary shares of the Company on Stock Exchange on the date of grant of the share options; (ii) the average closing price of ordinary shares of the Company on Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of ordinary shares of the Company of HK\$0.10. The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in share capital of the Company.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

31. SHARE OPTION SCHEME *(Continued)*

The movements in share options outstanding under the Scheme during the year are as follows:

	2022		2021	
	Weighted average exercise price <i>HK\$</i> <i>per share</i>	Number of options <i>'000</i>	Weighted average exercise price <i>HK\$</i> <i>per share</i>	Number of options <i>'000</i>
At 1 January	2.285	142,500	2.267	256,726
Exercised during the year	–	–	2.244	(114,226)
At 31 December	2.285	142,500	2.285	142,500

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2022 Number of options <i>'000</i>	2021 Number of options <i>'000</i>	Exercise price* <i>HK\$ per share</i>	Exercise periods
9,796	9,796	2.244	24-4-2014 to 23-4-2023
22,084	22,084	2.244	24-4-2015 to 23-4-2023
26,740	26,740	2.244	24-4-2016 to 23-4-2023
39,820	39,820	2.244	24-4-2017 to 23-4-2023
42,060	42,060	2.244	24-4-2018 to 23-4-2023
2,000	2,000	5.180	1-6-2016 to 27-3-2024
142,500	142,500		

* 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 TO FINANCIAL STATEMENTS

31 December 2022

31. SHARE OPTION SCHEME *(Continued)*

Notes:

- (a) No share option expense was recognised during the years ended 31 December 2022 and 2021 as the expense was fully amortised in prior years.
- (b) No (2021: 114,226,000) share options were exercised during the year resulted in the issue of no (2021: 114,226,000) ordinary shares of the Company and new share capital of nil (2021: HK\$11,422,000), as further detailed in note 30 to the financial statements.
- (c) At the end of the reporting period, the Company had 142,500,000 share options outstanding under the Scheme, which represented approximately 1.42% of the Company's shares in issue as at 31 December 2022. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 142,500,000 additional ordinary shares of the Company and additional share capital of HK\$14,250,000 and share premium of HK\$439,024,000 (before issue expenses, and taking into account the share option reserve) as at 31 December 2022.

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 142,500,000 share options outstanding under the share option scheme, which represented approximately 1.42% of the Company's share in issue as at that date.

32. 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 fulfilment 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 2022

32. SHARE AWARD SCHEME *(Continued)*

Movements of the Company's shares held under the Share Award Scheme are as follows:

	Number of ordinary shares held under share award scheme account	Amount <i>HK\$'000</i>
At 1 January 2021	32,298,947	121,268
Exercised during the year	(12,330,489)	(44,189)
Purchased during the year <i>(note (a))</i>	11,822,000	36,848
At 31 December 2021 and 1 January 2022	31,790,458	113,927
Exercised during the year	(140,920)	(505)
Purchased during the year <i>(note (a))</i>	21,776,000	42,942
At 31 December 2022	53,425,538	156,364

Notes:

- (a) During the year ended 31 December 2022, 21,776,000 (2021: 11,822,000) ordinary shares of the Company were purchased by the trustee from the open market at an aggregate consideration of approximately HK\$42,942,000 (2021: HK\$36,848,000). The amount has been deducted from shareholders' equity and recorded in "Shares held under share award scheme" of the Group. As at 31 December 2022, there were 53,425,538 (2021: 31,790,458) ordinary shares held through the trustee of the Share Award Scheme.

21,664,326 (2021: 12,471,409) awarded shares were granted during the year ended 31 December 2022.

- (b) On 2 December 2022, the Company granted an aggregate of 3,843,216 awarded shares to four directors, namely Mr. Zhou Min, Mr. Li Haifeng, Mr. Tung Woon Cheung Eric, Mr. Li Li and 17,821,110 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 2 December 2022.

Subject to the acceptance of the Selected Participants and that the Selected Participants remain as eligible persons, the Awarded Shares will be transferred to the Selected Participants at nil consideration while exercised.

NOTES TO FINANCIAL STATEMENTS

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32. SHARE AWARD SCHEME *(Continued)*

Notes: (Continued)

(b) *(Continued)*

The fair value of equity-settled share awards granted during the year ended 31 December 2022 amounted to HK\$42,462,000 in total, which was estimated determined based on the closing market price at the date of the grant.

The Group recognised a share award expense of HK\$42,462,000 (2021: HK\$37,539,000) for the year ended 31 December 2022, in respect of the Awarded Shares granted during the year.

Movements in the number of the awarded shares and their related average fair value are as follows:

	2022		2021	
	Average fair value HK\$ per share	Number of shares	Average fair value HK\$ per share	Number of shares
At 1 January	3.01	140,920	–	–
Granted	1.96	21,664,326	3.01	12,471,409
Exercised	3.01	(140,920)	3.01	(12,330,489)
At 31 December		21,664,326		140,920

NOTES TO FINANCIAL STATEMENTS

31 December 2022

33. RESERVES

- (a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.
- (b) The share option and share award reserve comprises the fair value of share options and share awards vested which are yet to be exercised and the share awards granted, as further explained in the accounting policy of share-based payments in note 3.4 to the financial statements. The amount will either be transferred to the share premium account when the related share options and share awards are exercised, or transferred to retained profits should the related share options or share awards lapse or be forfeited.
- (c) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries, joint ventures and associates. None of the Group's PRC reserve funds as at 31 December 2022 and 2021 were distributable in the form of cash dividends.

34. PERPETUAL CAPITAL INSTRUMENTS

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At 1 January		4,251,303	7,810,440
Issuance of perpetual capital instruments		–	2,997,840
Repayment of perpetual capital instruments		–	(6,702,878)
Share of profit for the year		216,269	260,036
Distribution declared for the year		(216,269)	(260,036)
Exchange realignment		(239,653)	145,901
At 31 December		4,011,650	4,251,303
Portion classified as equity attributable to shareholders of the Company	<i>(b)</i>	(1,187,358)	(1,216,904)
Portion directly attributable to holders of perpetual capital instruments	<i>(a)</i>	2,824,292	3,034,399

NOTES TO FINANCIAL STATEMENTS

31 December 2022

34. PERPETUAL CAPITAL INSTRUMENTS *(Continued)*

Notes:

- (a) In 2021, a PRC wholly-owned subsidiary of the Group issued two perpetual capital instruments (the “Perpetual Capital Instruments III”) with the aggregate principal amount of RMB2,500,000,000 (approximately HK\$3,012,048,000). Net proceeds after deducting the issuance costs amounted to RMB2,488,208,000 (approximately HK\$2,997,840,000).

During the year ended 31 December 2022, distributions with an aggregate of RMB146,924,000 (approximately HK\$170,841,000) (2021: RMB29,129,000 (approximately HK\$35,095,000)) were declared to the holders of the Perpetual Capital Instruments III, and the amount has been fully repaid during the year (2021: RMB23,011,000 (approximately HK\$28,062,000) has not been paid and recorded in other payable).

- (b) On 11 May 2020, the Company issued a perpetual capital instrument (the “Perpetual Capital Instrument II”) with a principal amount of RMB1,000,000,000 (approximately HK\$1,123,596,000). Net proceeds after deducting the issuance costs amounted to RMB997,361,000 (approximately HK\$1,187,358,000).

During the year ended 31 December 2022, distributions with an aggregate of RMB39,068,000 (approximately HK\$45,428,000) (2021: RMB40,307,000 (approximately HK\$48,563,000)) were declared to the holders of the Perpetual Capital Instrument II, of which RMB24,955,000 (approximately HK\$29,017,000) (2021: RMB25,534,000 (approximately HK\$31,139,000)) has not been paid and recorded in other payables as at 31 December 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

35. BANK AND OTHER BORROWINGS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Bank loans:		
Secured	25,024,900	26,960,162
Unsecured	37,271,651	27,454,562
	62,296,551	54,414,724
Other loans:		
Secured	699,192	941,426
Unsecured	829,594	1,317,709
	1,528,786	2,259,135
Total bank and other borrowings	63,825,337	56,673,859
Analysed into:		
Bank loans repayable:		
Within one year or on demand	8,227,978	10,289,459
In the second year	6,830,866	3,921,915
In the third to fifth years, inclusive	32,650,441	24,954,592
Beyond five years	14,587,266	15,248,758
	62,296,551	54,414,724
Other loans repayable:		
Within one year or on demand	326,893	541,994
In the second year	279,642	469,912
In the third to fifth years, inclusive	598,005	835,205
Beyond five years	324,246	412,024
	1,528,786	2,259,135
Total bank and other borrowings	63,825,337	56,673,859
Portion classified as current liabilities	(8,554,871)	(10,831,453)
Non-current portion	55,270,466	45,842,406

NOTES TO FINANCIAL STATEMENTS

31 December 2022

35. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

(a) The carrying amounts of the Group's bank and other borrowings are denominated in the following currencies:

	2022 HK\$'000	2021 HK\$'000
HK\$	26,436,087	20,154,237
RMB	35,390,756	33,883,564
EUR	247,772	573,930
SGD	609,444	587,627
AUD	1,141,278	1,315,517
MYR	-	158,984
	63,825,337	56,673,859

(b) The effective interest rates (per annum) at the end of the reporting period were as follows:

	2022	2021
Bank loans:		
Secured	1.85% – 5.94%	2.21% – 6.00%
Unsecured	1.11% – 6.15%	1.11% – 5.15%
Other loans:		
Secured	3.07% – 4.90%	2.15% – 4.80%
Unsecured	1.20% – 5.55%	1.20% – 5.38%

(c) Certain of the Group's bank loans are secured by:

- (i) mortgages over certain sewage treatment and water distribution concession rights (comprising operating concessions and receivables under service concession arrangements) in a net carrying amount of HK\$25,896,810,000 (2021: HK\$33,971,243,000) as at 31 December 2022, 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\$11,324,000 (2021: HK\$13,595,000) pledged to banks for the issuance of guarantees and to secure certain banking facilities granted to the Group (note 29);
- (iv) mortgages over certain land use rights and buildings and investment properties in Mainland China in an aggregate carrying amount of HK\$1,568,724,000 (2021: HK\$1,492,967,000) (notes 14, 15 and 16);
- (v) mortgages over certain trade receivables with a net carrying amount of HK\$1,874,035,000 (2021: Nil) as at 31 December 2022 (note 26); and
- (vi) pledges over the Group's equity interests in certain subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

35. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

- (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\$265,728,000 (2021: HK\$291,463,000) bearing interest at fixed rates ranging from 1.2% to 4.05% (2021: 1.2% to 4.05%) per annum; and
 - (ii) Three (2021: three) interest-free government loans in an aggregate principal amount of HK\$24,915,000 (2021: HK\$24,871,000).
- (e) Loan agreements of certain bank loans of the Group in an aggregate carrying amount of HK\$27,471,593,000 (2021: HK\$20,514,353,000) as at 31 December 2022 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 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 2022

36. CORPORATE BONDS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Secured corporate bonds repayable:		
Within one year	143,379	149,632
In the second year	52,720	149,632
In the third to fifth years, inclusive	–	55,020
	196,099	354,284
Unsecured corporate bonds, repayable:		
Within one year	7,309,240	–
In the second year	2,267,592	7,539,649
In the third to fifth years, inclusive	6,238,178	6,684,904
Beyond five years	2,258,898	2,422,199
	18,073,908	16,646,752
Total corporate bonds	18,270,007	17,001,036
Portion classified as current liabilities	(7,452,619)	(149,632)
Non-current portion	10,817,388	16,851,404

NOTES TO FINANCIAL STATEMENTS

31 December 2022

36. CORPORATE BONDS *(Continued)*

Corporate bonds of the Group as at 31 December 2022 and 2021 comprised:

- (i) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the “RMB Bonds”) issued by a wholly-owned subsidiary of the Group to two institutional investors in April 2016 pursuant to the subscription agreement dated 25 April 2016, bearing interest at a rate of 3.60% per annum and 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 and the remaining balance was fully settled during the year ended 31 December 2021;
- (ii) corporate bonds with an aggregate principal amount of RMB4,000,000,000 (the “Panda Bonds”) issued by the Company to certain institutional investors in July 2016 pursuant to the subscription agreement dated 22 July 2016, bearing interest at rates of 3.00% and 3.33% per annum. The Panda Bonds are due for repayment on 28 July 2022 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 and the remaining balance was fully settled during the year ended 31 December 2021;
- (iii) corporate bonds with an aggregate principal amount of RMB700,000,000 (the “Green Bonds”) issued by the Company to certain institutional investors in August 2016, bearing interest at a rate of 3.25% per annum. The Green Bonds are due for repayment on 3 August 2024. Three years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company. Further details of the Green Bonds are set out in the Company’s announcements dated 22 August 2016. The bonds were fully repaid in during the year ended 31 December 2021;
- (iv) corporate bonds with an aggregate principal amount of MYR400,000,000 (the “MYR Bonds”) issued by a wholly-owned subsidiary to certain institutional investors in July 2017, bearing interest at rates ranging from 5.1% to 5.5% per annum and guaranteed by the Company. Bank deposits of MYR79,126,000 (equivalent to HK\$141,808,000) (2021: Nil) (note 29), trade receivables of MYR nil (2021: MYR527,093,000 (equivalent to HK\$985,664,000)) (note 26) and amounts due from contract customers of MYR33,142,000 (equivalent to HK\$59,398,000) (2021: MYR21,706,000 (equivalent to HK\$40,599,000)) (note 25) were designated as a charge for the repayment of the MYR Bonds. The MYR Bonds are due for repayment starting from 17 July 2020. The Group repaid MYR80,000,000 (2021: MYR90,000,000) during the year ended 31 December 2022;

NOTES TO FINANCIAL STATEMENTS

31 December 2022

36. CORPORATE BONDS *(Continued)*

- (v) corporate bonds with an aggregate principal amount of US\$500,000,000 (the “US\$ Bonds”) issued by a wholly-owned subsidiary to certain institutional investors in May 2018, bearing interest rate of 4.95% per annum and guaranteed by the Company. The US\$ Bonds are due for repayment in May 2023;
- (vi) 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. The Group repaid RMB2,000,000,000 during the year ended 31 December 2021;
- (vii) 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. The Group repaid RMB1,000,000,000 during the year ended 31 December 2021;
- (viii) 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;
- (ix) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the “Sixth Panda Bonds”) issued by a wholly-owned subsidiary to certain institutional investors in February 2020 pursuant to the subscription agreement dated 27 February 2020, bearing interest at rates of 3.43% and 3.98% per annum. The Sixth Panda Bonds are due for repayment on 5 March 2028 and 5 March 2030. For the bonds that due in 2028, three years prior to the maturity, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company;
- (x) corporate bonds with an aggregate principal amount of RMB1,500,000,000 (the “Seventh Panda Bonds”) issued by the Company to certain institutional investors in April 2021 pursuant to the subscription agreement dated 23 April 2021, bearing interest at a rate of 3.98% per annum. The Seventh Panda Bonds are due for repayment on 23 April 2029. Three years prior to the maturity, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company;

NOTES TO FINANCIAL STATEMENTS

31 December 2022

36. CORPORATE BONDS *(Continued)*

- (xi) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the “Eighth Panda Bonds”) issued by the Company to certain institutional investors in July 2021 pursuant to the subscription agreement dated 14 July 2021, bearing interest at rates of 3.27% and 3.64% per annum. The Eighth Panda Bonds are due for repayment on 14 July 2026. For RMB1,000,000,000 of the bonds, 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.

- (xii) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the “Ninth Panda Bonds”) issued by the Company to certain institutional investors in January 2022 pursuant to the subscription agreement dated 20 January 2022, bearing interest at rates of 2.97% and 3.38% per annum. The Ninth Panda Bonds are due for repayment on 19 January 2027. For RMB1,000,000,000 of the bonds, 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 2022 will be due for repayment on the aforementioned maturity dates unless being redeemed prior to their maturity pursuant to the terms thereof and of the indenture. In addition, the US\$ Bonds and certain 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 2022

37. NOTES PAYABLE

Notes payable of the Group as at 31 December 2021 comprised a corporate note issued on 8 November 2013 with a principal amount of RMB2,000,000,000 (the “RMB Note”) which was unsecured and wholly repayable in the third to fifth years, inclusive, from the end of the reporting period. The note payable was guaranteed by the Company, bore interest at a rate of 6.15% per annum and was due for repayment on 14 November 2022 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement. The notes payable was fully repaid during the year ended 31 December 2022.

38. PROVISION FOR MAJOR OVERHAULS

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

The movements in the provision for major overhauls of the Facilities during the year are as follows:

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
At 1 January		302,166	230,496
Arising from acquisition	45	55,519	–
Provision for the year	7	298,853	274,981
Increase in discounted amounts arising from the passage of time	8	39,747	33,270
Amount utilised during the year		(263,248)	(242,731)
Exchange realignment		(17,505)	6,150
At 31 December		415,532	302,166

NOTES TO FINANCIAL STATEMENTS

31 December 2022

39. DEFERRED INCOME

Deferred income of the Group mainly represented government subsidies received in respect of the Group's construction of sewage treatment, water distribution facilities and hazardous waste treatment facilities and purchase of certain land in the PRC. As at 31 December 2021, deferred income of the Group also included receipt in advance of certain guarantee receipts of sewage water treatment related to the transfer of financial assets in relation to the asset-backed note that further details are set out in the announcement of the Company dated 20 April 2017. The asset-backed note was early redeemed during the year ended 31 December 2022, and hence, the related balance was fully reversed in the current year. Further details are set out in note 22 to the financial statements.

These government subsidies are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

40. DEFERRED TAX

Net deferred tax assets/(liabilities) recognised in the consolidated statement of financial position are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Deferred tax assets	435,374	398,869
Deferred tax liabilities	(5,034,803)	(4,973,688)
	(4,599,429)	(4,574,819)

NOTES TO FINANCIAL STATEMENTS

31 December 2022

40. DEFERRED TAX *(Continued)*

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

	Note	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 2021		(351,437)	197,875	90,472	(3,761,536)	(9,800)	2,422	(3,832,004)
Net deferred tax credit/(charged) to profit or loss	11	378	41,053	(14,668)	(674,135)	–	–	(647,372)
Exchange realignment		(29,992)	17,910	3,294	(86,249)	(583)	177	(95,443)
At 31 December 2021 and 1 January 2022		(381,051)	256,838	79,098	(4,521,920)	(10,383)	2,599	(4,574,819)
Net deferred tax credit/(charged) to profit or loss	11	(2,432)	81,768	28,500	(405,109)	–	–	(297,273)
Exchange realignment		26,036	(19,401)	(35,669)	301,224	708	(235)	272,663
At 31 December 2022		(357,447)	319,205	71,929	(4,625,805)	(9,675)	2,364	(4,599,429)

Notes:

- (a) At 31 December 2022, deferred tax assets have not been recognised in respect of unused tax losses of HK\$773,595,000 (2021: HK\$778,108,000) 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\$39,533,000 (2021: HK\$102,003,000) 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 2022, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors of the Company, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$6,938,091,000 (2021: HK\$7,140,922,000) as at 31 December 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

41. 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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 3 months	9,413,357	13,540,292
4 to 6 months	1,665,679	1,493,349
7 months to 1 year	1,609,412	1,262,687
1 to 2 years	5,412,642	3,933,816
2 to 3 years	1,858,937	2,667,833
Over 3 years	2,524,601	2,041,748
Balance with an extended credit period	153,461	131,453
	22,638,089	25,071,178

The trade payables are non-interest-bearing and apart from certain trade payables relating to construction services which are not yet due for payment and are settled based on inspection progress of the respective projects, the other amounts are normally settled on 60-day terms.

The Group's trade payables as at 31 December 2022 included, inter alia, an amount of HK\$3,464,000 (2021:HK\$3,450,000) 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 2022 and 2021.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

42. OTHER PAYABLES AND ACCRUALS

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Accruals		1,352,584	1,277,134
Other liabilities	<i>(a)</i>	5,138,846	4,357,137
Contract liabilities	<i>(b)</i>	1,482,489	1,477,697
Due to subcontractors	<i>(c)</i>	899,682	990,266
Due to joint ventures	<i>20(d)</i>	1,327,332	1,401,678
Due to associates	<i>21(b)</i>	70,262	69,768
Due to related parties	<i>(d)</i>	225,826	197,774
Other taxes payables	<i>43</i>	848,821	647,010
		11,345,842	10,418,464
Portion classified as current liabilities		(10,570,256)	(9,610,921)
Non-current portion		775,586	807,543

Notes:

- (a) The Group's other liabilities as at 31 December 2022 and 2021 included, inter alia, outstanding considerations in an aggregate amount of HK\$1,216,392,000 (2021: HK\$431,789,000) 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

42. OTHER PAYABLES AND ACCRUALS *(Continued)*

Notes: (Continued)

(b) Details of contract liabilities are as follows:

	31 December 2022 HK\$'000	31 December 2021 HK\$'000	1 January 2021 HK\$'000
Construction services	1,213,177	1,304,471	1,252,312
Others	269,312	173,226	89,003
Total contract liabilities	1,482,489	1,477,697	1,341,315

The increase in contract liabilities in 2022 and 2021 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 2022 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\$358,489,000 (2021: HK\$384,720,000), as further detailed in note 27 to the financial statements.
- (d) Included in the amounts due to related parties of the Group as at 31 December 2022 were an advance from a related party of SGD14,397,000 (equivalent to HK\$84,794,000) (2021: SGD13,806,000 (equivalent to HK\$78,997,000)). 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\$2,075,000 (2021: HK\$1,915,000) was recognised in profit or loss during the year ended 31 December 2022.
- (e) Other payables are non-interest-bearing and have an average credit term of three months.

43. OTHER TAXES PAYABLES

	2022 HK\$'000	2021 HK\$'000
Business tax	40,362	71,022
Value-added taxes	662,705	469,131
Others	145,754	106,857
	848,821	647,010

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

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

	BEWG Environmental Group (“北控中科成”) <i>(note a)</i>		BCEG Environmental and its subsidiaries (“BCEG Group”)	
	2022	2021	2022	2021
Percentage of equity interest held by non-controlling interests:	35.59%	35.59%	61.35%	61.35%
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Profit for the year allocated to non-controlling interests:	695,481	533,249	88,475	179,247
Accumulated balances of non-controlling interests at the reporting date:	9,575,883	9,182,445	1,701,296	1,786,678

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

(Continued)

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

	BEWG Environmental Group		BCEG Group	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Revenue	5,620,116	7,068,889	660,735	1,087,641
Interest income	181,178	262,044	9,999	2,615
Total expenses	(3,790,032)	(5,194,790)	(526,521)	(801,789)
Profit for the year	2,011,262	2,136,143	144,213	288,467
Total comprehensive income for the year	137,981	2,721,894	(52,320)	384,849
Current assets	17,841,514	18,181,093	1,204,429	1,039,441
Non-current assets	38,519,188	41,900,215	3,661,259	4,058,962
Current liabilities	(17,175,837)	(18,317,047)	(1,198,085)	(1,314,633)
Non-current liabilities	(9,885,510)	(11,755,955)	(918,229)	(906,732)
Net cash flows from/(used in):				
Operating activities	2,519,091	(5,738,127)	(13,695)	10,733
Investing activities	(617,041)	(333,152)	16,380	12,949
Financing activities	(882,817)	5,523,685	137,905	(88,033)
Net increase/(decrease) in cash and cash equivalents	1,019,233	(547,594)	140,590	(64,351)

Notes:

- (a) In June and July 2021, the non-controlling shareholder further made cash contributions of in aggregate of RMB4.5 billion to BEWG Environmental Group. Upon completion of the second capital injections, the Group's percentage of shareholding in BEWG Environmental Group was further diluted from 85.45% to 64.41%.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

(Continued)

Notes: *(Continued)*

(a) *(Continued)*

After the completion of the capital injections, the Group is entitled at its discretion to acquire the equity interest in BEWG Environmental. In the event of any of the following specific circumstances occurs, amongst others, the Group shall have the option to purchase the equity interest at its discretion from the non-controlling shareholder, including but not limited to:

- (i) BEWG Environmental is unable to complete a qualified listing of its shares within 12 months before 2030.
- (ii) BEWG Environmental is unable to meet the performance requirements as stipulated in the capital injection agreement.
- (iii) BEWG Environmental is unable to meet the distributable profits requirements as stipulated in the capital injection agreement.
- (iv) BEWG Environmental is unable to meet the net asset value requirements from 2025 as stipulated in the capital injection agreement.
- (v) Valuation of BEWG Environmental is less than the agreed valuation as stipulated in the capital injection agreement.

Upon the occurrence of the above circumstances, but the Group does not exercise the option to purchase the equity interest, the non-controlling shareholder shall have the following rights:

- (i) to request to amend the articles of association of BEWG Environmental, such that the non-controlling shareholder will hold (i) two-thirds or more of the voting rights in the shareholders' meeting of BEWG Environmental; and (ii) two-thirds or more of the voting rights in the board of directors of BEWG Environmental by adjusting the composition of the board of directors of BEWG Environmental;
- (ii) to exercise the drag-along right to sell the equity interest based on the fair value determined by an independent valuer and provided that the Group shall procure other original shareholders of BEWG Environmental to use their best endeavours to assist the non-controlling shareholder in exercising the drag-along right;
- (iii) to request to increase the dividend ratio; and
- (iv) to request the Group to inject cash for their responsible part of unpaid capital injections.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

45. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year ended 31 December 2022 as at their respective dates of acquisition are set out as follows:

	<i>Note</i>	2022 HK\$'000
Property, plant and equipment		3,401,751
Right-of-use assets		417,463
Operating concessions		246,954
Investments in joint ventures		41,397
Other intangible assets		7,856
Equity investments designated at fair value through other comprehensive income		5,882
Amounts due from contract customers	<i>(b)</i>	30,766
Receivables under operating concession arrangements	<i>(b)</i>	574,414
Inventories		106,911
Trade receivables	<i>(b)</i>	2,361,291
Deferred tax assets		48,070
Prepayments, deposits and other receivables	<i>(b)</i>	532,486
Cash and cash equivalents		1,616,088
Deferred income		(184,603)
Trade payables		(428,734)
Other payables and accruals		(1,172,532)
Lease liabilities		(205,592)
Income tax payables		(90,046)
Bank and other borrowings		(2,615,140)
Provision for major overhauls		(55,519)
Deferred tax liabilities		(147,178)
Total identifiable net assets at fair value		4,491,985
Non-controlling interests		(2,692,125)
		1,799,860
Goodwill on acquisition		126,490
Gains on bargain purchase		(186,687)
		1,739,663

NOTES TO FINANCIAL STATEMENTS

31 December 2022

45. BUSINESS COMBINATIONS *(Continued)*

	2022 HK\$'000
Satisfied by:	
Cash	607,995
Remeasurement of investment in an associate previously held shares	1,131,668
	1,739,663
Revenue for the year since acquisition [#]	2,948,911
Profit for the year since acquisition	201,351

[#] 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:

	2022 HK\$'000
Cash consideration	(607,995)
Cash and cash equivalents acquired	1,616,088
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	1,008,093

Had the above business combinations taken place at the beginning of the year ended 31 December 2022, the Group's profit for the year ended 31 December 2022 would have been HK\$3,114,039,000 and the Group's revenue would have been HK\$30,283,085,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

45. BUSINESS COMBINATIONS *(Continued)*

Notes:

- (a) Business combinations during the year ended 31 December 2022 included, inter alia, the following material transactions:
- (i) In May 2022, the Group entered into an acting in concert agreement with certain third parties (“Acting In Concert Parties”) with 12.93% of the issued share capital of Beijing Enterprises Urban Resources Group Limited (“BEURG”), a then 31.23% associate of the Group and which is principally engaged in the provision of environmental hygiene, hazardous waste treatment and waste electrical and electronic equipment treatment businesses in the PRC. Pursuant to the acting in concert agreement, each of the Acting In Concert Parties irrevocably and unconditionally undertook to the Group that it would act in concert with the Group with respect to BEURG whereby each of the Acting In Concert Parties would vote in the same manner as the Group in meetings of shareholders of BEURG. In June 2022, the Group and the Acting In Concert Parties further acquired shares in BEURG, and as at 30 June 2022, the Group and the Acting In Concert Parties hold 41.06% and 19.49% of the issued share capital of BEURG, respectively. As a result, BEURG becomes a subsidiary of the Group. The Group recognised a loss on remeasurement of BEURG before consolidation of HK\$172,960,000 and a gain on bargain purchase of HK\$177,333,000 as a result of fair value assessment during the year which are included in “Other operating expenses, net” and “Other income and gains, net” on the face of the consolidated statement of profit or loss, respectively.
 - (ii) In January 2022, the Group completed the acquisition of the 70% equity interest in a company which is engaged in the provision of water supply in the PRC, at an aggregate cash consideration of RMB282,526,000 (equivalent to HK\$340,393,000) from third party. The company has become a non-wholly-owned subsidiary of the Group since then.
 - (iii) In January 2022, the Group completed the acquisition of the 100% equity interest in a company which is engaged in the provision of sewage treatment service in the PRC, at an aggregate cash consideration of RMB218,969,000 (equivalent to HK\$267,602,000) from third party. The company has become a wholly-owned subsidiary since then.

The purpose of the above acquisitions is to expand the operations of the Group in the respective fields.

The goodwill arising on the above acquisitions is attributable to the benefits of synergies and expected business growth as a result of future market development.

There was no business combination during the year ended 31 December 2021.

- (b) 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 2022 amounted to HK\$30,766,000, HK\$574,414,000, HK\$2,361,291,000 and HK\$389,756,000, respectively.

The gross contractual amounts of amounts due from contract customers, receivables under service concession arrangements, trade receivables, deposits and other receivables as at the respective dates of acquisitions were HK\$30,766,000, HK\$574,414,000, HK\$2,378,555,000 and HK\$389,756,000, respectively, of which trade receivables of HK\$17,264,000 are expected to be uncollectible.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

46. DISPOSAL OF SUBSIDIARIES

	<i>Note</i>	2022 HK\$'000 <i>(note (a))</i>	2021 <i>HK\$'000</i> <i>(note (b))</i>
Net assets disposed/deregistered of:			
Property, plant and equipment		768	109
Other intangible assets		1	–
Amounts due from contract customers		86,477	–
Receivables under service concession arrangements		59,865	60,553
Trade receivables		6,055	183
Inventories		3,312	–
Prepayments, deposits and other receivables		37,837	2,546
Cash and cash equivalents		54,342	84
Trade payables		(74,503)	(29)
Other payables and accruals		(49,306)	(5,954)
Income tax payables		–	1,473
Non-controlling interests		(27,691)	–
		97,157	58,965
Exchange fluctuation reserve realised		1,454	(6)
(Loss)/gain on disposal of subsidiaries, net		(40,957)	431
		57,654	59,390
Satisfied by:			
Cash		11,278	59,390
Reclassified to an associate	<i>(a)(i)</i>	21,090	–
Waive of an intercompany balance with a then subsidiary		25,286	–
		57,654	59,390

NOTES TO FINANCIAL STATEMENTS

31 December 2022

46. DISPOSAL OF SUBSIDIARIES *(Continued)*

An analysis of the net inflow in respect of the disposal of subsidiaries is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cash consideration	11,278	59,390
Cash and bank balances disposed of	(54,342)	(84)
Net (outflow)/inflow of cash and cash equivalents in respect of the disposal of subsidiaries	(43,064)	59,306

Notes:

- (a) The Group completed the following material disposal of subsidiaries during the year ended 31 December 2022:
- (i) in February 2022, a subsidiary of the Group issued and allotted 5,680 new shares to independent third parties of the Group. As a result, the Group's interest in the subsidiary engaging in the consulting services in the PRC diluted from 100% to 43.2%. After the dilution, the investment was reclassified to an investment in an associate; and
 - (ii) in May 2022, the Group disposed of a 70% equity interest in a subsidiary engaging in the sewage treatment services in the PRC, for a cash consideration of HK\$5,395,000.
- (b) The Group completed the following material disposal of subsidiaries during the year ended 31 December 2021:
- (i) in March 2021, 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\$932,000; and
 - (ii) in December 2021, the Group disposed of a 100% equity interest in a subsidiary engaging in the water distribution services in the PRC, for a cash consideration of HK\$58,458,000.

47. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

During the year, the Group had non-cash additions and lease modification to right-of-use assets and lease liabilities of HK\$75,057,000 (2021: HK\$11,167,000) and HK\$75,057,000 (2021: HK\$11,167,000), respectively, in respect of lease arrangements for various assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

47. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) Changes in liabilities arising from financing activities

	Bank and other borrowings <i>HK\$'000</i>	Lease liabilities <i>HK\$'000</i>	Corporate bonds <i>HK\$'000</i>	Notes payable <i>HK\$'000</i>
At 1 January 2022	56,673,859	125,763	17,001,036	2,438,588
Changes from financing cash flows	7,130,317	(83,402)	2,128,890	(2,325,581)
New leases	–	85,512	–	–
Acquisition of subsidiaries	2,615,140	205,592	–	–
Lease modification	–	(10,455)	–	–
Interest expense	11,115	11,685	20,264	416
Foreign exchange movement	(2,605,094)	(21,033)	(880,183)	(113,423)
At 31 December 2022	63,825,337	313,662	18,270,007	–
	Bank and other borrowings <i>HK\$'000</i>	Lease liabilities <i>HK\$'000</i>	Corporate bonds <i>HK\$'000</i>	Notes payable <i>HK\$'000</i>
At 1 January 2021	49,633,677	408,924	20,008,224	2,379,704
Changes from financing cash flows	5,751,605	(34,326)	(3,274,475)	–
New leases	–	11,167	–	–
Reclassification from lease liabilities	264,748	–	–	–
Reclassification to other loans	–	(264,748)	–	–
Interest expense	30,736	6,426	23,453	832
Foreign exchange movement	993,093	(1,680)	243,834	58,052
At 31 December 2021	56,673,859	125,763	17,001,036	2,438,588

NOTES TO FINANCIAL STATEMENTS

31 December 2022

48. CONTINGENT LIABILITIES

(a) Guarantees

As at 31 December 2022, bank guarantees in favour of employers in lieu of deposits for project bidding and project performance of HK\$2,281,620,000 (2021: HK\$1,223,872,000) were outstanding and corporate guarantees of HK\$2,593,904,000 (2021: 3,635,425,000) were given to banks and/or institutional investors in connection with facilities granted to certain associates, joint ventures and bonds issued by joint ventures.

(b) Litigation

In September 2021, a plaintiff commenced an arbitration proceeding against a direct wholly-owned subsidiary of the Company (the “Subsidiary A”), alleging that the Subsidiary A failed in execution of an agreement which the Subsidiary A agreed to engage the plaintiff for Public-Private Partnership construction work within one year from the agreement date. During the year ended 31 December 2022, the final arbitral award was issued and there was no material adverse financial impact of the Group.

Save as disclosed above, as at 31 December 2022, the Group did not have any significant contingent liabilities.

49. PLEDGE OF ASSETS

Details of the Group’s assets pledged for the Group’s bank and other borrowings and corporate bonds are included in notes 35 and 36 to the financial statements, respectively. In addition, the Group’s bill facilities granted by the banks are secured by pledged time deposits of the Group as detailed in note 29(a)(iii).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

50. CAPITAL COMMITMENTS

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Contracted, but not provided for:		
New service concession arrangements on:		
TOT basis	886,346	597,212
BOT basis	7,866,649	8,472,744
Build-Own-Operate basis	34,091	34
	8,787,086	9,069,990

In addition, the Group had the following commitments provided to joint ventures (including the Group's share of commitments made jointly with other joint ventures), which are not included in the above:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Contracted, but not provided for:		
Capital contribution to joint ventures	2,215,266	1,830,801
Capital contribution	10,239,103	11,581,857
	12,454,369	13,412,658

Save as disclosed above, at 31 December 2022, the Group did not have any significant commitments.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

51. RELATED PARTY TRANSACTIONS

- (a) For the year ended 31 December 2022, the Group had engaged a related company of the Group to provide water treatment engineering services for a water supply plant located in Malaysia at a service fee of HK\$90,399,000 (MYR50,471,000) (2021: Nil) which was charged according to the published prices and conditions offered by the related company to its major customer.
- (b) The Group had engaged a joint venture of the Group to provide water treatment engineering services for a sewage treatment plant located in Malaysia at a service fee of HK\$3,957,000 (MYR2,209,000) (2021: HK\$1,705,000 (MYR909,000)) which was charged based on terms mutually agreed between the Group and the joint venture during the year ended 31 December 2022.
- (c) **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.
- (d) **Compensation of key management personnel of the Group**

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Short term employee benefits	31,674	24,769
Equity-settled share award expense	7,533	1,782
Pension scheme contributions	260	305
Total compensation paid to key management personnel	39,467	26,856

Further details of directors’ emoluments are included in note 9 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

51. RELATED PARTY TRANSACTIONS *(Continued)*

- (e) On 23 December 2020, the Company and Beijing Enterprises Group Finance Co. Ltd. (“BG Finance”) entered into a 2020 deposit services master agreement (the “2020 Deposit Agreement”) whereby the Company and BG Finance continue to carry out the transactions of similar nature from time to time under the 2020 Deposit Agreement for three years from 1 January 2021 to 31 December 2023, with the terms and conditions substantially the same as those under the deposit services master agreements and its supplemental agreements signed by both parties in 2015 and 2017. 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 2020 Deposit Agreement shall not exceed HK\$1,520,000,000.

The deposits placed by the Group with BG Finance as at the end of the year amounted to HK\$1,379,904,000 (2021: HK\$1,357,603,000). 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\$5,162,656,000 (2021: HK\$4,501,875,000) and bear interest at floating rates ranging from 3.80% to 4.65% per annum (2021: from 3.95% to 4.90% per annum). The related interest expenses recognised in profit or loss during the current and prior years were not significant to the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

51. RELATED PARTY TRANSACTIONS *(Continued)*

- (f) On 13 January 2020, the capital injection in cash by ABC Financial Asset Investment Co., Ltd (農銀金融資產投資有限公司) (“ABC Financial”) into Beijing Enterprises (Guangxi) Holdings Co., Ltd. (北控水務(廣西)集團有限公司) (the “Bei Kong Guangxi Capital Injection”), a subsidiary of the Group, was completed. Prior to completion of the Bei Kong Guangxi Capital Injection, the Group had entered into transactions with Agricultural Bank of China Limited* (中國農業銀行股份有限公司) (“ABC”) and its subsidiaries (“ABC Group”) relating to the provision of deposit services, settlement and other financial services. Upon completion of the Bei Kong Guangxi Capital Injection, ABC Financial holds 45.55% of Bei Kong Guangxi. As ABC is the ultimate controlling shareholder of ABC Financial, members of ABC Group have become connected persons of the Group. Hence, such transactions became continuing connected transactions of the Group following completion of the Bei Kong Guangxi Capital Injection pursuant to Chapter 14A of the Listing Rules. The maximum daily aggregate deposits placed by the Group with ABC Group (including any interest accrued thereon) for three financial years ending 31 December 2020 to 2022 shall not exceed RMB3,000,000,000 (equivalent to approximately HK\$3,409,091,000), respectively.

The deposits placed by the Group with ABC Group as at 31 December 2022 amounted to RMB211,382,000 (approximately HK\$240,207,000) (2021: RMB98,332,000 (approximately HK\$119,917,000)). The related interest income recognised in profit or loss during the current and prior years were 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 ABC by the Group as at the end of the reporting period amounted to HK\$3,397,872,000 (2021: HK\$3,011,174,000) and bear interest at floating rates ranging from 1.17% to 4.90% per annum (2021: from 1.11% to 4.90% per annum). Interest expenses recognised in profit or loss during the current and prior years were not significant to the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

51. RELATED PARTY TRANSACTIONS *(Continued)*

- (g) The Group had provided management services to joint ventures of the Group for HK\$35,079,000 (RMB30,168,000) (2021: HK\$25,872,000 (RMB21,474,000)) and the fee was charged based on terms mutually agreed between the Group and the joint ventures during the year ended 31 December 2022.
- (h) The Group had leased certain office premises to an associate of the Group for HK\$9,629,000 (RMB8,281,000) (2021: HK\$13,062,000 (RMB10,841,799)) which was charged based on terms mutually agreed between the Group and the associate.
- (i) The Group had provided construction services for comprehensive renovation projects located in Nanjing City and Fuzhou City in the PRC to joint ventures of the Group for an aggregate amount of HK\$97,373,000 (RMB83,741,000) (2021: HK\$90,573,000 (RMB75,176,000)) during the year ended 31 December 2022 and the fees were charged based on terms mutually agreed between the Group and the joint ventures during the year ended 31 December 2022.
- (j) On 29 January 2021, Chifeng Beikong Water Purification Co., Ltd.* (赤峰北控水質淨化有限公司) (“Chifeng Beikong Water Purification”), a subsidiary of the Group, entered into a finance lease agreement with ABC Financial Leasing Co., Ltd.* (農銀金融租賃有限公司) (“ABC Financial Leasing”). Pursuant to the finance lease agreement, Chifeng Beikong Water Purification has agreed to transfer and change the registration of the ownership of facilities for phase I project of Hongmiaozi sewage treatment plant in Chifeng City, the PRC and facilities and equipment for phase II expansion project of Hongmiaozi sewage treatment plant in Chifeng City, the PRC, under the name of ABC Financial Leasing from Chifeng Beikong Water Purification for a transfer consideration of RMB110,000,000 (equivalent to approximately HK\$125,000,000), and ABC Financial Leasing has then agreed to lease to Chifeng Beikong Water Purification with the lease principal of RMB110,000,000 (equivalent to approximately HK\$125,000,000) and the lease interest of approximately RMB29,463,000 (equivalent to approximately HK\$34,259,000).

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

* *For identification only*

NOTES TO FINANCIAL STATEMENTS

31 December 2022

51. RELATED PARTY TRANSACTIONS *(Continued)*

- (k) On 5 February and 24 March 2021, Chifeng Bei Kong Sanzuodian Water Supply Co., Ltd.* (赤峰北控三座店供水有限公司) (“Chifeng Bei Kong”), a subsidiary of the Group, entered into loan agreements with Chifeng Songshan sub-branch of Agricultural Bank of China Limited* (中國農業銀行股份有限公司赤峰松山支行) (“ABC, Chifeng sub-branch”). Pursuant to the loan agreements, ABC, Chifeng sub-branch has agreed to grant loan facilities in an aggregate principal amount of RMB90,270,000 (equivalent to HK\$110,085,000) to Chifeng Bei Kong (the “Chifeng Loan Facilities”). The Chifeng Loan Facilities shall be secured by the pledge of security given by Chifeng Bei Kong and the guarantee will be given by BEWG Environmental, a non-wholly owned subsidiary of the Company, in favour of ABC, Chifeng sub-branch.

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

- (l) On 25 August 2021, Linyi Bei Kong Beicheng Water Co., Ltd.* (臨沂北控北城水務有限公司) (“Linyi Bei Kong”, a non-wholly owned subsidiary of the Company), as borrower, entered into the loan agreement with ABC, Linyi Lanshan sub-branch (“Linyi sub-branch”), as lender, pursuant to which ABC, Linyi sub-branch agreed to grant the loan facility in a principal amount of RMB150,000,000 to Linyi Bei Kong for a term of fifteen years from the date of drawdown based on a floating interest rate equal to the relevant loan prime rate for a period longer than five years announced by the National Interbank Funding Centre on the date immediately preceding the drawdown date minus 0.6%

The loan facility would be secured by the pledge of receivables under service concession arrangement from Linyi Liuqing River No. 2 sewage treatment plant expansion and supporting PPP project and the guarantee would be given by Beijing Enterprises Water Group (China) Investment Limited* (北控水務(中國)投資有限公司) (“BEWG (China) Investment”), a wholly-owned subsidiary of the Company, in respect to the payment obligations of Linyi Bei Kong in favour of ABC, Linyi sub-branch.

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

- (m) On 19 August 2022, Beijing Daoxiang Water Resources Technology Co., Ltd. * (北京稻香水資源科技有限公司) (“Daoxiang”), a wholly-owned subsidiary of the Group, as borrower, entered into loan agreement with ABC, as lender, pursuant to which ABC agreed to grant the loan facility in a principal amount of RMB503,685,000 (equivalent to approximately HK\$572,369,000) to Daoxiang for a term of thirty years from the date of drawdown based on a floating interest rate equal to the relevant loan prime rate for a period longer than five years announced by the National Interbank Funding Centre on the date immediately preceding the drawdown date minus 0.85%.

* *For identification only*

NOTES TO FINANCIAL STATEMENTS

31 December 2022

51. RELATED PARTY TRANSACTIONS *(Continued)*

(m) *(Continued)*

The loan facility would be secured by the pledge of expected earnings right from Beijing Haidian Daoxiang Lake reclaimed water plant phase II project.

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

(n) On 26 August 2022, Jinan Beikong Water Development Co., Ltd.* (濟南北控水務發展有限公司) (“Jinan Beikong”), a wholly-owned subsidiary of the Group, as lessee, entered into finance lease agreement with BG Finance, as lessor, pursuant to which Jinan Beikong has agreed to transfer and change the registration of the ownership of the pre-treatment equipment including the procurement and installation of ultrafiltration and reverse osmosis membrane process (“Jinan Beikong Leased Assets”) under the name of BG Finance from Jinan Beikong for a transfer consideration of RMB23,000,000 (equivalent to approximately HK\$26,744,000), and BG Finance has then agreed to lease to Jinan Beikong with the lease principal of RMB23,000,000 (equivalent to approximately HK\$26,744,000) and the lease interest of approximately RMB5,609,000 (equivalent to approximately HK\$6,522,000). Pursuant to the finance lease agreement, BG Finance has agreed to lease back the Jinan Beikong Leased Assets to Jinan Beikong for a term of 10 years. The rent is calculated and payable in RMB, which shall be payable in 20 consecutive instalments semi-annually.

BEWG (China) Investment, as the guarantor, has agreed to provide guarantee for debts arising under the financial lease agreement in favour of BG Finance.

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

* *For identification only*

NOTES TO FINANCIAL STATEMENTS

31 December 2022

51. RELATED PARTY TRANSACTIONS *(Continued)*

- (o) On 26 August 2022, Pucheng Gerui Water Purification Co., Ltd.* (蒲城格瑞水質淨化有限公司) (“Pucheng Gerui”), a wholly-owned subsidiary of the Group, as lessee, entered into finance lease agreement with BG Finance, as lessor, pursuant to which Pucheng Gerui has agreed to transfer and change the registration of the ownership of the Pucheng sewage treatment plant (“Pucheng Gerui Leased Assets”) under the name of BG Finance from Pucheng Gerui for a transfer consideration of RMB49,000,000 (equivalent to approximately HK\$55,682,000), and BG Finance has then agreed to lease to Pucheng Gerui with the lease principal of RMB49,000,000 (equivalent to approximately HK\$55,682,000) and the lease interest of approximately RMB11,951,000 (equivalent to approximately HK\$13,897,000). Pursuant to the finance lease agreement, BG Finance has agreed to lease back the Pucheng Gerui Leased Assets to Pucheng Gerui for a term of 10 years. The rent is calculated and payable in RMB, which shall be payable in 20 consecutive instalments semi-annually.

BEWG (China) Investment, as the guarantor, has agreed to provide guarantee for debts arising under the finance lease agreement in favour of BG Finance.

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

- (p) On 26 August 2022, Foshan Beikong Water Quality Treatment Co., Ltd.* (佛山北控水質處理有限公司) (“Foshan Beikong”), a non-wholly-owned subsidiary of the Group, as borrower, entered into loan agreement with BG Finance, as lender, pursuant to which BG Finance has agreed to grant loan facility in a principal amount of RMB240,000,000 (equivalent to approximately HK\$272,727,000) to Foshan Beikong for a term of eleven years from the date of drawdown based on a floating interest rate equal to the relevant loan prime rate for a period longer than five years announced by the National Interbank Funding Centre on the date immediately preceding the drawdown rate minus 0.5%.

The loan facility shall be secured by the pledge of expected earnings right given by Foshan Beikong under pledge agreement in favour of BG Finance and the guarantee given by BEWG (China) Investment in proportion to 80% shareholding in Foshan Beikong in favour of BG Finance.

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

Save as disclosed above and the transactions and balances detailed elsewhere in the financial statements, the Group had no material transactions and outstanding balances with related parties during the years ended 31 December 2022 and 2021.

* For identification only

NOTES TO FINANCIAL STATEMENTS

31 December 2022

52. 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 2022				
Investment properties	–	–	701,651	701,651
Equity investments designated at fair value through other comprehensive income	167,237	62,280	671,357	900,874
Total	167,237	62,280	1,373,008	1,602,525
At 31 December 2021				
Investment properties	–	–	872,622	872,622
Financial asset at fair value through profit or loss	–	–	52,268	52,268
Equity investments designated at fair value through other comprehensive income	619,512	62,280	489,636	1,171,428
Total	619,512	62,280	1,414,526	2,096,318

During the year ended 31 December 2022, the fair value measurement of a listed equity investment designated at fair value through other comprehensive income amounting to HK\$418,960,000 was transferred from Level 1 to Level 3. Except for the aforementioned transfer, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets and financial liabilities (2021: 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 2022

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, corporate bonds, notes payable, cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, receivables under service concession arrangements, deposits and other receivables, trade payables, other payables and amounts due from/to related parties which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors of the Company review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations.

Banks and other borrowings, corporate bonds, notes payable, cash and bank balances are stated at amortised cost and are not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

At 31 December 2022, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings, lease liabilities, and cash and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax for the year ended 31 December 2022 by approximately HK\$477,542,000 (2021: HK\$398,471,000).

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 2022

53. 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 (arising from RMB denominated financial instruments) and the Group's equity.

	Increase/ (decrease) in profit before tax <i>HK\$'000</i>	Increase/ (decrease) in equity <i>HK\$'000</i>
31 December 2022		
If Hong Kong dollar weakens against RMB by 5%	252,099	2,795,966
If Hong Kong dollar strengthens against RMB by 5%	(252,099)	(2,795,966)
31 December 2021		
If Hong Kong dollar weakens against RMB by 5%	374,358	3,175,936
If Hong Kong dollar strengthens against RMB by 5%	(374,358)	(3,175,936)

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

Credit risk

The main credit risk exposure to the Group arises from default or delinquency in principal payments of trade receivables, receivables under service concession arrangements and amounts due from contract customers. In respect of these receivables, the Group trades mainly with municipal governments in different provinces which do not have significant credit risk. In addition, these receivables are monitored on an ongoing basis. Therefore, in the opinion of the directors, the credit risk is not significant.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Maximum exposure and year-end staging

Management groups financial instruments on the 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 2022 and 2021.

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 prescribes by HKFRS 9. The determination of the ECLs also incorporates forward-looking information.

The Group has established a policy to perform an assessment as at 31 December 2022 and 2021, 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 2022

53. 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 monitors their credit risk. Management believes that there is no material credit risk inherent in the Group's outstanding balances as at 31 December 2022 and 2021.

As at 31 December 2022 and 2021, all restricted cash and pledged deposits and cash and cash equivalents were deposited with creditworthy financial institutions without significant credit risk.

Save as disclosed in note 48 to the financial statements, the Group does not provide any guarantees which would expose the Group or the Company to credit risk. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from the financial assets are set out in notes 18, 25, 26 and 27 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\$21.2 billion (2021: HK\$22.5 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 2022 as detailed in note 50 to the financial statements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, corporate bonds and notes payable, as well as the strict control over its receivables due in day to day business. In the opinion of the directors of the Company, new bank borrowings will be obtained to finance certain of the new construction projects and service concession arrangements, and certain of the above-mentioned capital commitments are expected to be fulfilled by the Group after 2022. 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 2022

53. 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 2022					
Bank and other borrowings	10,773,619	9,037,410	34,423,464	15,467,113	69,701,606
Corporate bonds	7,865,375	2,619,237	6,965,812	2,403,867	19,854,291
Lease liabilities	96,565	94,058	58,898	75,826	325,347
Trade payables	22,638,089	–	–	–	22,638,089
Other liabilities	6,659,250	507,413	–	–	7,166,663
Due to related parties	225,826	–	–	–	225,826
	48,258,724	12,258,118	41,448,174	17,946,806	119,911,822
31 December 2021					
Bank and other borrowings	12,484,240	5,799,181	26,710,558	16,165,756	61,159,735
Corporate bonds	876,842	8,059,154	6,764,562	3,663,930	19,364,488
Notes payable	2,569,814	–	–	–	2,569,814
Lease liabilities	18,450	51,163	4,465	58,169	132,247
Trade payables	25,071,178	–	–	–	25,071,178
Other liabilities	6,208,426	610,423	–	–	6,818,849
Due to related parties	197,774	–	–	–	197,774
	47,426,724	14,519,921	33,479,585	19,887,855	115,314,085

NOTES TO FINANCIAL STATEMENTS

31 December 2022

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may issue new shares to increase capital or sell assets to reduce debt. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 2021.

The Group monitors capital using the gearing ratio, which is calculated based on net debt and total equity. Net debt is calculated as total bank and other borrowings, corporate bonds, notes payable and lease liabilities (excluded those derived from operating leases) less cash and cash equivalents. Total equity includes equity attributable to shareholders of the Company, perpetual capital instruments and non-controlling interests. No changes were made in the calculation of gearing ratio during the years ended 31 December 2022 and 2021. The gearing ratios at 31 December 2022 and 2021 were as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Net debt	68,931,480	65,370,788
Total equity	59,463,501	63,548,754
Gearing ratio	116%	103%

54. 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 2022 and 2021 were financial assets at amortised cost, and financial liabilities at amortised cost, respectively.

55. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and re-presented to conform to the current year's presentation.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

56. 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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
ASSETS		
Non-current assets:		
Property, plant and equipment	77	263
Investments in subsidiaries	20,607,111	18,594,617
Investments in joint ventures	1,290,155	1,281,390
Investments in associates	–	485,417
Prepayments, deposits and other receivables	105,775	105,775
Equity investments designated at fair value through other comprehensive income	620,305	883,117
Total non-current assets	22,623,423	21,350,579
Current assets:		
Trade receivables	2,718	2,917
Prepayments, deposits and other receivables	29,240,679	27,179,394
Cash and cash equivalents	400,374	276,897
Total current assets	29,643,771	27,459,208
TOTAL ASSETS	52,267,194	48,809,787

NOTES TO FINANCIAL STATEMENTS

31 December 2022

56. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
EQUITY AND LIABILITIES		
Equity:		
Issued capital	1,004,661	1,013,582
Perpetual capital instrument <i>(note)</i>	1,187,358	1,216,904
Reserves <i>(note)</i>	9,085,094	9,589,727
TOTAL EQUITY	11,277,113	11,820,213
Non-current liabilities:		
Bank and other borrowings	3,627,633	494,880
Corporate bonds	8,497,476	10,323,826
Other payables and accruals	22,556,450	19,287,551
Deferred tax liabilities	–	3,623
Total non-current liabilities	34,681,559	30,109,880
Current liabilities:		
Other payables and accruals	1,369,510	1,046,362
Bank and other borrowings	1,532,500	5,833,332
Corporate bonds	3,406,512	–
Total current liabilities	6,308,522	6,879,694
TOTAL LIABILITIES	40,990,081	36,989,574
TOTAL EQUITY AND LIABILITIES	52,267,194	48,809,787

NOTES TO FINANCIAL STATEMENTS

31 December 2022

56. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

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

	Share premium account <i>HK\$'000</i>	Shares held under share award scheme <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i> <i>(a)</i>	Fair value reserve <i>HK\$'000</i>	Share option and share award reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Perpetual capital instrument <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2021	2,538,372	(121,268)	4,948,684	(48,753)	235,419	593,353	1,187,358	9,333,165
Profit for the year	-	-	-	-	-	3,034,690	48,563	3,083,253
Other comprehensive income/(loss) for the year:								
Exchange differences related to foreign operations	-	-	-	-	-	-	29,546	29,546
Changes in fair value of equity investments at fair value through other comprehensive income	-	-	-	(145,524)	-	-	-	(145,524)
Shares purchased for share award scheme	-	(36,848)	-	-	-	-	-	(36,848)
Exercise of share options	352,687	-	-	-	(107,786)	-	-	244,901
Exercise of share awards	-	44,189	-	-	(37,115)	(7,074)	-	-
Equity-settled shares award arrangements	-	-	-	-	37,539	-	-	37,539
Distribution declared to holders of a perpetual capital instrument	-	-	-	-	-	-	(48,563)	(48,563)
Final 2020 cash distributions paid	-	-	(781,856)	-	-	-	-	(781,856)
Interim 2021 cash dividends paid	-	-	-	-	-	(908,982)	-	(908,982)
At 31 December 2021 and 1 January 2022	2,891,059	(113,927)	4,166,828	(194,277)	128,057	2,711,987	1,216,904	10,806,631
Profit for the year	-	-	-	-	-	1,487,647	45,428	1,533,075
Other comprehensive income/(loss) for the year:								
Exchange differences related to foreign operations	-	-	-	-	-	-	(29,546)	(29,546)
Changes in fair value of equity investments at fair value through other comprehensive income	-	-	-	(449,471)	-	-	-	(449,471)
Shares repurchased and cancelled	(154,523)	-	-	-	-	-	-	(154,523)
Shares purchased for share award scheme	-	(42,942)	-	-	-	-	-	(42,942)
Exercise of share awards	-	505	-	-	(424)	(81)	-	-
Equity-settled shares award arrangements	-	-	-	-	42,462	-	-	42,462
Distribution declared to holders of a perpetual capital instrument	-	-	-	-	-	-	(45,428)	(45,428)
Final 2021 cash dividends paid	-	-	-	-	-	(679,100)	-	(679,100)
Interim 2022 cash dividends paid	-	-	-	-	-	(708,706)	-	(708,706)
At 31 December 2022	2,736,536	(156,364)	4,166,828	(643,748)	170,095	2,811,747	1,187,358	10,272,452

- (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.

57. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2023.

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 published audited financial statements, is set out below:

RESULTS

	Year ended 31 December				
	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue	24,596,857	28,192,464	25,360,587	27,880,147	24,982,372
Operating profit	5,864,681	6,619,711	5,428,737	6,012,364	3,023,258
Share of profits and losses of:					
Joint ventures	454,565	551,395	729,681	861,712	652,031
Associates	459,664	384,986	330,781	58,069	121,754
Profit before tax	6,778,910	7,556,092	6,489,199	6,932,145	3,797,043
Income tax expense	(1,548,890)	(1,713,503)	(1,248,658)	(1,464,224)	(1,081,333)
Profit for the year	5,230,020	5,842,589	5,240,541	5,467,921	2,715,710
ATTRIBUTABLE TO:					
Shareholders of the Company	4,471,265	4,925,718	4,183,466	4,195,940	1,374,151
Holders of perpetual capital instruments	246,012	234,830	232,180	211,473	170,841
Non-controlling interests	512,743	682,041	824,895	1,060,508	1,170,718
	5,230,020	5,842,589	5,240,541	5,467,921	2,715,710

FIVE-YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND TOTAL EQUITY

	Year ended 31 December				
	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Total assets	126,380,708	151,160,926	174,401,121	183,623,186	183,945,711
Total liabilities	(88,568,571)	(104,629,750)	(117,277,116)	(120,074,432)	(124,482,210)
NET ASSETS	37,812,137	46,531,176	57,124,005	63,548,754	59,463,501
Equity attributable to shareholders of the Company	25,489,537	30,548,450	37,343,812	40,029,378	33,880,000
Perpetual capital instruments	6,350,900	6,250,999	6,623,082	3,034,399	2,824,292
Other non-controlling interests	5,971,700	9,731,727	13,157,111	20,484,977	22,759,209
TOTAL EQUITY	37,812,137	46,531,176	57,124,005	63,548,754	59,463,501



北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 371)