中國水業集團有限公司*
CHINA WATER INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1129

# Build a Dream and Share Future Success

Annual Report **2022**

* For identification purpose only

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Zhu Yongjun (Chairman)
Mr. Hu Siyun
Ms. Chu Yin Yin, Georgiana
Ms. Deng Xiao Ting

### Independent Non-Executive Directors

Mr. Wong Siu Keung, Joe
Ms. Qiu Na
Mr. Lam Cheung Shing, Richard

## AUDIT COMMITTEE

Mr. Wong Siu Keung, Joe (Chairman)
Ms. Qiu Na
Mr. Lam Cheung Shing, Richard

## REMUNERATION COMMITTEE

Mr. Wong Siu Keung, Joe (Chairman)
Mr. Zhu Yongjun
Mr. Lam Cheung Shing, Richard

## NOMINATION COMMITTEE

Mr. Zhu Yongjun (Chairman)
Mr. Wong Siu Keung, Joe
Mr. Lam Cheung Shing, Richard

## INVESTMENT COMMITTEE

Mr. Zhu Yongjun (Chairman)
Mr. Hu Siyun
Ms. Chu Yin Yin, Georgiana
Mr. Zhong Wei Guang
Mr. Pan Yimin
Mr. Liu Wei Qing
Mr. Tang Po Shing

## COMPANY SECRETARY

Ms. Chu Yin Yin, Georgiana

## AUTHORISED REPRESENTATIVES

Mr. Zhu Yongjun
Ms. Chu Yin Yin, Georgiana.

## PRINCIPAL BANKERS

### PRC

Agricultural Bank of China
Bank of China Limited
Bank of China Industrial and Commercial

### Hong Kong

Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
Chiyu Banking Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited

## LEGAL ADVISERS AS TO HONG KONG LAWS

Johnny K.K. Leung & Co.

## LEGAL ADVISER AS TO CAYMAN ISLANDS LAWS

Conyers Dill & Pearman

## AUDITORS

Crowe (HK) CPA Limited

## REGISTERED OFFICE

Cricket Square Hutchins Drive P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3, Building D
P.O. Box 1586, Gardenia Court, Camana Bay
Grand Cayman, KY1-1100, Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR TRANSFER OFFICE

Union Registrars Limited
Suites 3301–04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point Hong Kong

# CORPORATE INFORMATION

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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19 Wang Chiu Road
Kowloon Bay
Hong Kong

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN CHINA

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Shenzhen International Innovation Valley
Dashi First Road
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Shenzhen, China

## CONTACTS

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## WEBSITE

www.chinawaterind.com

## STOCK

1129

# FINANCIAL HIGHLIGHTS

| | Year ended 31 December | | |
|---|---|---|---|
| | **2022** | 2021 | Change |
| | **HK$'000** | HK$'000 | % |
| **Financial Result** | | | |
| Revenue | **1,219,143** | 1,101,791 | 10.65% |
| Gross Profit | **370,934** | 420,530 | (11.79%) |
| (Loss)/Profit for the year | **(29,719)** | 25,547 | (216.33%) |
| Loss attributable to owners of the Company | **(89,198)** | (44,020) | (102.63%) |
| Loss per share (HK cents) | | | |
| — Basic and diluted | **(3.88)** | (2.76) | (40.53%) |
| EBITDA (Note) | **265,182** | 333,467 | (20.48%) |

| | 2022 | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Financial Position** | | |
| Gearing ratio | **45.07%** | 50.13% |
| Current ratio | **1.31 times** | 1.13 times |
| Cash and cash equivalents | **184,447** | 291,358 |
| Net asset value | **1,902,418** | 1,925,866 |
| Equity attributable to owners of the Company | **1,395,640** | 1,370,239 |
| Equity attributable to owners of the Company per share (HK$) | **0.49** | 0.86 |

Note: Loss before finance costs, income tax, depreciation and amortisation.

| | 2018<br>HK$'000 | 2019<br>HK$'000 | 2020<br>HK$'000 | 2021<br>HK$'000 | **2022<br>HK$'000** |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Revenue | 1,008,002 | 1,189,201 | 1,129,548 | 1,101,791 | **1,219,143** |
| Finance costs | (47,559) | (68,757) | (79,746) | (66,431) | **(67,535)** |
| Profit before taxation | 107,233 | 248,014 | 180,786 | 89,511 | **(466)** |
| Income tax expense | (41,651) | (69,288) | (60,320) | (63,964) | **(29,253)** |
| Profit for the year | 65,582 | 178,726 | 120,466 | 25,547 | **(29,719)** |
| **Assets and liabilities** | | | | | |
| Non-current assets | 2,182,205 | 2,431,726 | 2,618,688 | 2,123,019 | **2,095,700** |
| Current assets | 1,378,507 | 2,328,003 | 3,010,108 | 1,738,848 | **1,367,808** |
| Total assets | 3,560,712 | 4,759,729 | 5,628,796 | 3,861,867 | **3,463,508** |
| Non-current liabilities | 842,523 | 933,783 | 761,074 | 393,904 | **513,131** |
| Current liabilities | 955,779 | 1,929,549 | 2,666,773 | 1,542,097 | **1,047,959** |
| Total liabilities | 1,798,302 | 2,863,332 | 3,427,847 | 1,936,001 | **1,561,090** |
| Net assets | 1,762,410 | 1,896,397 | 2,200,949 | 1,925,866 | **1,902,418** |
| Equity attributable to owners of the Company | 1,219,396 | 1,284,897 | 1,407,592 | 1,370,239 | **1,395,640** |
| Non-controlling interests | 543,014 | 611,500 | 793,357 | 555,627 | **506,778** |
| Earnings (loss) per share | | | | | |
| Basic | 0.42 cents | 7.24 cents | 0.69 cents | (2.76) cents | **(3.88) cents** |
| Diluted | 0.42 cents | 7.24 cents | 0.69 cents | (2.76) cents | **(3.88) cents** |

# CHAIRMAN'S STATEMENT

China Water Industry Group Limited together with its subsidiaries (collectively referred to as the "**Group**") put forward its strategic positioning and plan as a biomass and fuel gas service provider in China for the first time in early 2022. Pursuant to the plan, the Group carried out a comprehensive development strategy layout. With continuous development in the upstream and downstream business of the environmental protection and new energy segment as the core segment, the Group actively consolidated the biogas project, and has explored the all-way utilization of gas sources (industrial biogas and agricultural biogas). The Group has been laid out and expanded biomass and fuel gas power generation projects overseas with the project in Jakarta, Indonesia as the core.

The year of 2022 was an arduous year for the environment protection industry. The multiple dispersion of pandemic outbreak and the phased economic downturn exerted tremendous impact on the progress and expansion of our new projects, as well as our project operating capacity. We unified our thought and fully implemented the strategic position and plan that were put forward in the beginning of the year, and overcame the derived effects caused by the pandemic. Hence, the Group's water services and environmental protection and new energy segments developed steadily in 2022 and achieved an operating income of HK$1,012 million.

## BUSINESS REVIEW:

### I. Environmental Protection and New Energy Business, our Core Business, Developed Rapidly

*(i) Landfill Gas Utilization Project Developed Steadily, and New Gas Source Expansion Achieved Phased Results*

As of the end of December 2022, New China Water (Nanjing) Renewable Resources Investment Company Limited* (新中水(南京)再生資源投資有限公司) (the "**New China Water**") and its subsidiaries (collectively referred to as the "**New China Water Group**") had a total of over 50 solid waste treatment projects with an annual on-grid electricity capacity of 672 million kWh. The total installed capacity reached 150.50 MW. Three new biogas power generation projects were put into operation, providing a new power generation scale of 10 MW. Two new refined gas purification projects were put into operation, representing an increase of 42,000 $m^3$/d. Eight biogas power generation projects were newly signed, with a new power generation scale of 18 MW. There was one industrial biogas purification project newly signed. The Jakarta project was fully restarted and achieved a power generation scale of 5 MW by the end of 2022, and is expected to gradually expand to 16 MW in the first phase.

*(ii) Urban and Rural Organic Waste Resources Utilization Became the Focus of Future Development of New China Water*

New China Water signed the "Comprehensive Utilization of Agricultural Organic Waste Resourcefulness Project in Chengwu County", "Comprehensive Treatment of Organic Waste in Huoqiu County, Anhui Province" and "Comprehensive Treatment and Utilization of Livestock and Poultry Manure Demonstration Project in Boli County, Qitaihe City, Heilongjiang Province" in 2022, realizing our goal of utilizing organic resources in the urban and rural areas.

*(iii) Achieved Breakthrough in Carbon-credit Assets Gains, Renewable Energy Subsidy Cash Inflows Increased Significantly*

As of the end of December 2022, total carbon-credit assets of New China Water Group reached 20 million tonnes. In 2022, we achieved the trading of 2.036 million tonnes of carbon-credit assets, with carbon-credit assets gain of RMB51.83 million. We have another 3 Clean Development Mechanism ("**CDM**") projects, with a total carbon-credit assets of approximately 1.2 million tons, and are expected to complete trading in the first half of 2023.

As of the end of 2022, we have accumulated subsidy receivables of RMB528 million. We also received renewable energy subsidies of RMB95.52 million in 2022, representing an increase of 131% as compared with 2021.

*(iv) The World Bank and Other Financial Institutions Escorted Our Development*

In 2022, New China Water achieved total financing amount of approximately RMB320 million. Of which, New China Water signed a green loan agreement with The International Finance Corporation (IFC) on 20 May 2022, and successfully drawdown the first tranche of RMB161.2 million on 29 July 2022. Through other lease financing and bank loans, we obtained a financing amount of RMB153 million, relieving the fund pressure for constructing our projects and accelerating their development. At the same time, that international financial institution provided strong and powerful endorsement for New China Water, which further demonstrated that we have obtained various safeguards, and we will achieve high speed development through resources integration in the future.

## II. Water Service Sector Achieved Development and Optimization

In 2022, every division of the water service sector overcame the difficulties due to pandemic, drought and production capacity to ensure stable and standard production and to guarantee the normal supply and operation of urban water supply and sewage treatment, and they all excelled the operating targets set up in the beginning of the year. At the same time, the Group further optimized the disposal of some water segment project assets.

(i) Yichun Water Industry Group Co., Ltd* (宜春水務集團有限公司) achieved 85,741,400 tonnes of high-quality water supply, an increase of 6.67% over the same period of last year. It sold 65,186,000 tonnes of water throughout the year, an increase of 10.13% over last year. The comprehensive water quality rate reached 100%. It achieved one increase two decreases, reaching a new stage for the business environment, and widely recognized by the public.

(ii) The construction of the photovoltaic power generation project in Yichun Fangke Sewage Treatment Company Limited* (宜春市方科污水處理有限公司) was completed and officially put into operation in June 2022, with an average monthly power generation of 70,000 to 90,000 KWh. It was awarded the title of "Fulfilling Contract and Keeping Promise" by the Science and Technology Department of Jiangxi Province, and attained the ISO enterprise quality management and environmental system certification, which further enhanced its social reputation and brand effect.

(iii) The average daily actual sewage treatment capacity of Jining City Haiyuan Water Treatment Company Ltd* (濟寧市海源水務有限公司) in 2022 increased by 39% year-on-year. The operating income of Jining City Haisheng Water Treatment Company Limited* (濟寧市海晟水務有限公司) went up by 9% year-on-year, exceeding the Group's performance target. At present, the two companies, according to the "Urban Drainage "two zero, a standard" Program in Shandong Province (Lu Jianfa [2022] No. 3)" issued by the government in Shandong, reached a preliminary consensus with local authority to improve the standard transformation in Jinxiang County. The transformation will further improve the local water environment in Jinxiang County after completion, and provide a boost to the national ecological civilization. At the same time, it can help to make up the shortcomings of the two companies in sewage treatment capacity, facilitate the increase of sewage treatment price. Therefore, it is expected to bring new recorded revenue after putting into operation.

(iv) Foshan City Gaoming Huaxin Sewage Treatment Company Ltd.* (佛山市高明區華信污水處理有限公司) achieved about 4,048,000 $m^3$ of treated water for the year, with a daily average of about 11,091 $m^3$, an increase of 23.64% as compared with last year.

(v) In 2022, we completed the disposal of the 60% equity interest of Linyi Fenghuang Water Industry Co., Ltd.* (臨沂鳳凰水業有限公司).

### III. City-Industry Integration Segment Actively Sought Cooperation Resources and New Opportunities

In 2022, the real estate market faced continuous downward momentum and difficulties including severe pandemic that resulted in postponement of resumption of work and delayed licensing. In order to better promote the deployment of city-industry integration projects in Huizhou and Nanjing, the Group set up business segment teams to coordinate and supervise the project progress, investment and sales return and fund planning.

With the joint efforts of the Group's city-industry integration business segment teams and project companies, we attained the real estate right certificate of our project in Nanjing Space Big Data Industrial Park, and established a real estate company. We set the monthly property fee charging standard of RMB4.5/$m^2$, and expected the property fee annual income of about RMB2 million. We achieved cost reduction and efficiency increase in the Huizhou Honghu Blue Valley Wisdom Square* Project (鴻鵠藍谷智慧廣場) through internal optimization, and had developed many industries such as apartment, hotel, B&B, education and training, and corporate self-use, actively tapping and realizing the value of the project.

### IV. Flourishing Glass Recycling Business in Hong Kong and Gradually Diversified

In 2022, Hong Kong Glass Reborn Limited ("**Glass Reborn**") completed its plant relocation. Its overall operation is sound and healthy, with a stable glass bottle recycling volume. The company is highly recognized by Environmental Protection Department (the "**EPD**"). In 2022, it signed a silver sand contract with the EPD, which is a big leap forward in the development of the industry. Currently, Glass Reborn has submitted a tender in the new round of tenders for glass recycling contract conducted by the EPD and completed the relevant bidding procedures in accordance with the EPD's criteria.

In addition, on the basis of the original recycling model, Glass Reborn independently tested the on line intelligent recycling buckets, which can recycle glass bottles and plastic bottles at the same time. Not only can this enhance the recovery of glass bottles, but it also reaches business cooperation with plastic recycling companies to achieve a new business growth point.

## OUTLOOK AND FUTURE PLANS:

The year of 2022 was an arduous and challenging year, with the entire environmental industry being bombarded rather seriously. Under the leadership of the Board, the Company overcame the impact caused by objective reasons, identified the constraints in our development, and actively explored future profit growth points. The Group also appropriately solved the current problems while assuring its core business for future development.

In 2023, our development will entwine the strategy of becoming China's leading biomass gas operator, which implies that we will continue to develop the core business of environmental protection and new energy segment, and optimize other business segments according to their conditions.

**Optimization and transformation of traditional water service sector.** We will optimize and integrate the existing traditional water and sewage treatment companies in an orderly manner. In 2022, the Group acquired Anchor Environmental & Energy Technology (Shanghai) Co., Ltd.* ("**Anchor**") (安和睿環保能源科技(上海)有限公司) and RELE Environmental & Energy Technology (Shanghai) Co., Ltd.*("**RELE Environmental**") (睿利環保能源科技(上海)有限公司). It focused on the anaerobic technology and membrane separation technology of Anchor and RELE Environmental as core technology, and gradually transformed the water service sector into the deep treatment and resource utilization of high concentration organic wastewater to build a full-fledged technology-based company integrating technology-investment-construction-operation.

**Completing the sale of projects in the City-Industry Integration segment.** We will complete the transfer and sale of projects of Huizhou Honghu Blue Valley Wisdom Square* Project and Nanjing Property Project as soon as possible.

**Expansion of glass recycling business and derivative business in Hong Kong.** In addition to the existing glass recycling contract in Kowloon, Hong Kong, we are also expanding our business to other regions. We will set up a dedicated production line in Xisha to realize the silver sand contract with the EPD. We will also further develop plastic recycling business while exploring the sewage treatment business.

In future, the Group will concentrate on its upper and lower resources, endeavour to develop the business of environmental protection and new energy sector. The Group will also develop new gas sources based on the solid domestic landfill gas business. At the same time, we will make efforts to breakthrough the biomass organic waste resources treatment project, striving to realize business transformation. In addition, by reactivating the Jakarta, Indonesia project as the starting point for overseas market development, the Group will integrate and establish professional investment team and legal team to develop the overseas markets together in 2023.

Besides, the Group will strengthen the cooperation and communication among its companies to establish our corporate culture. Internally, we will strengthen the corporate culture and enhance the synergy, collaboration and mutual support in business between the two parties in order to obtain more new business and technical cooperation. Externally, we will actively maintain the existing strategic partners and continue to develop new strategic resources.

Spring is here already. In 2023, the Group will always adhere to the business philosophy of "The government is assured and the public is satisfied. Shareholders' recognition and staff contentment are achieved" ("**政府放心，市民滿意，股東認可，員工樂業**")." And we will stride forward with confidence to seize new opportunities both domestically and abroad to truly become the leading biomass gas operation service provider in China and the world.

# CHAIRMAN'S STATEMENT

## ACKNOWLEDGEMENTS:

I would like to take this opportunity to express my sincere gratitude to all my colleagues in the Board of Directors and the staff of the Group for their unremitting efforts in the development of the Group, and also to the investors and financial institutions who have given their trust and support to the Group. In 2023, the Group will live up to your trust and support and will forge ahead to ride on the momentum. We look forward to sharing more joy and harvest with you.

**Mr. Zhu Yongjun**
*Chairman and Executive Director*
Hong Kong, 30 March 2023

## FINANCIAL REVIEW

### Net loss for the year

Net loss for the year ended 31 December 2022 (the "**FY2022**") was approximately HK$29.72 million, representing a decrease of 216.33% from net profit of HK$25.55 million for the year ended 31 December 2021 (the "**FY2021**"). Loss attributable to owners of the Company for the FY2022 was HK$89.20 million (FY2021: loss of HK$44.02 million).

Comparing with the FY2021, the downturn from profit to loss was mainly attributable to, among others, net impact of the following factors: (i) the absence of contribution from Yingtan Water Group upon the completion of disposal in 2021; (ii) the reduction in gross profit derived from the renewable energy businesses as a result of the decrease in the volume of on-grid electricity and suspension of the production at one of the compressed natural gas plants; (iii) the depreciation of RMB which attributable to an exchange loss in the FY2022; (iv) the absence of net gain on financial assets at fair value through profit and loss in the FY2022 as compared to the FY2021 and (v) the increase in the provision of expected credit loss on loan receivables and other receivables. The effects of the aforesaid facts were partially offset by (a) the reduction in provision of impairment loss on assets relating to several renewable energy projects; (b) the increase in income from the sale of carbon-credit assets; (c) profit recognition for the sale of completed properties in Nanjing Space Big Data Industry Base project (the "**Nanjing Property Project**") upon the properties delivery to customers in second half of 2022; and (d) the decrease in administrative expenses.

### Revenue and gross profit

During the year under review, the Group is engaged in three business segments: (i) provision of water supply, sewage treatment and construction services; (ii) exploitation and sale of renewable energy; and (iii) property investment and development.

Following the completion of the disposal of Yingtan Water Group in 2021, the Group further disposed of an additional water supply project by signing into the Equity Transfer Agreement on 11 October 2022, for the purpose of disposing of 60% equity interests in the Linyi Fenghuang Water Industry Co., Ltd. (the "**Linyi Fenghuang**"). Upon completion of disposal in October 2022, Linyi Fenghuang ceased to be a subsidiary of the Company. The principal activities of Yingtan Water Group and Linyi Fenghuang are mainly engaged in the provision of water supply services and the related installation and construction services (the "**Water Supply Business**"). As a result of the aforesaid disposals, the Group has scaled down the Water Supply Business, but there is no change to the principal business of the remaining group (the "**Remaining Group**"). The Remaining Group has continued to carry out its existing businesses.

Financial performance analysis of the Remaining Group as follows:

| | 2022 | | | 2021 | | | | 2022 vs 2021 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | The Group HK$'000 | Linyi Fenghuang 10 months HK$'000 | The Remaining Group HK$'000 | The Group HK$'000 | Yingtan Water Group 2 months HK$'000 | Linyi Fenghuang 12 months HK$'000 | The Remaining Group HK$'000 | The Group HK$'000 | Yingtan Water Group HK$'000 | Linyi Fenghuang HK$'000 | The Remaining Group HK$'000 |
| Revenue | 1,219,143 | 43,756 | 1,175,387 | 1,101,791 | 43,621 | 66,072 | 992,098 | 117,352 | (43,621) | (22,316) | 183,289 |
| Gross profit | 370,934 | 9,648 | 361,286 | 420,530 | 22,819 | 18,415 | 379,296 | (49,596) | (22,819) | (8,767) | (18,010) |
| Gross profit margin | 30.43% | 22.05% | 30.74% | 38.17% | 52.31% | 27.87% | 38.23% | (7.74%) | (52.31%) | (5.82%) | (7.49%) |
| (Loss)/Profit after taxation | (29,719) | 8,664 | (38,383) | 25,547 | 23,239 | 10,943 | (8,635) | (55,266) | (23,239) | (2,279) | (29,748) |
| Attributable to: | | | | | | | | | | | |
| — owners of the Company | (89,198) | 5,198 | (94,396) | (44,020) | 11,852 | 6,566 | (62,438) | (45,178) | (11,852) | (1,368) | (31,958) |
| — non-controlling interests | 59,479 | 3,466 | 56,013 | 69,567 | 11,387 | 4,377 | 53,803 | (10,088) | (11,387) | (911) | 2,210 |
| | (29,719) | 8,664 | (38,383) | 25,547 | 23,239 | 10,943 | (8,635) | (55,266) | (23,239) | (2,279) | (29,748) |

The Remaining Group's revenue rose by HK$183.29 million from HK$992.10 million for FY2021 to HK$1,175.39 million for FY2022. The steady growth was mainly due to (i) the increase in income of construction services as several projects completed construction and new construction works commenced during FY2022; (ii) the increase in the water supply volume resulting in expansion of water supply capacity in Yichun Water Project; and (iii) the revenue recognition for the sale of completed properties in the Nanjing Property Project as control of the asset was transferred to buyers, which was partially offset by the decrease in the volume of on-grid electricity and the suspension of production of compressed natural gas (the "**CNG**") products in the Shenzhen Xiaping Landfill Site project.

During the year under review, the renewable energy business segment become the principal source of the Remaining Group's revenue which contributed HK$454.37 million (FY2021: HK$569.20 million). Construction services business segment became the second largest revenue generator of the Remaining Group which achieved a revenue of HK$308.15 million (FY2021: HK$216.37 million).

The Remaining Group's gross profit fell by HK$18.01 million from HK$379.30 million for the FY2021 to HK$361.29 million for the FY2022 due to the decline in business performance from the renewable energy business and increased in operating costs.

The other operating income, net, total expenses, finance costs and income tax expense of the Remaining Group are analysis as follows:

| | FY2022 | | | FY2021 | | | | FY2022 vs FY2021 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | The Group HK$'000 | Linyi Fenghuang 10 months HK$'000 | The Remaining Group HK$'000 | The Group HK$'000 | Yingtan Water Group 2 months HK$'000 | Linyi Fenghuang 12 months HK$'000 | The Remaining Group HK$'000 | The Group HK$'000 | Yingtan Water Group HK$'000 | Linyi Fenghuang HK$'000 | The Remaining Group HK$'000 |
| Other operating income, net | 71,297 | 8,016 | 63,281 | 79,056 | 20,962 | 5,072 | 53,022 | (7,759) | (20,962) | 2,944 | 10,259 |
| Selling and distribution expenses | 41,141 | – | 41,141 | 46,722 | 1,747 | – | 44,975 | (5,581) | (1,747) | – | (3,834) |
| Administrative expenses | 196,282 | 7,460 | 188,822 | 227,283 | 8,643 | 8,896 | 209,744 | (31,001) | (8,643) | (1,436) | (20,922) |
| Total expenses | 237,423 | 7,460 | 229,963 | 274,005 | 10,390 | 8,896 | 254,719 | (36,582) | (10,390) | (1,436) | (24,756) |
| Finance costs | 67,535 | – | 67,535 | 66,431 | 439 | – | 65,992 | 1,104 | (439) | – | 1,543 |
| Taxation | 29,253 | 1,540 | 27,713 | 63,964 | 9,209 | 3,684 | 51,071 | (34,711) | (9,209) | (2,144) | (23,358) |

### Other operating income, net

For the FY2022, the Remaining Group's other income, net, mainly consisted of income generated from selling carbon-credit assets amounted to HK$60.39 million, a VAT refund of HK$20.14 million, government grants of HK$4.18 million in relation to subsidizing certain renewable energy projects, net service income of HK$4.44 million from the operation of landfill gas projects, and interest income of HK$2.04 million. The Remaining Group's other income, net, rose by HK$10.26 million to HK$63.28 million due to the sale of carbon-credit assets, which was partially offset by the depreciation of the RMB in FY2022; a reduction in VAT refund; a default claim made by Jinling Construction and the write-off on certain obsolete equipment. (FY2021 of the Remaining Group: HK$53.02 million).

### Selling and distribution expenses and administrative expenses

For the FY2022, selling and distribution expenses together with administrative expenses ("**Total Expenses**") of the Remaining Group collectively decreased by HK$24.76 million to HK$229.96 million (FY2021 of the Remaining Group: HK$254.72 million) mainly because the drop in staff costs was the salary increment for 2019 and 2020 approved and paid in 2021, but no such payments were made in FY2022, and reduction in amortization on land upon Nanjing Property Project obtained the real estate right certificate and the depreciation of the RMB. Total Expenses of the Remaining Group mainly consisted of staff costs including social insurance of HK$124.36 million, legal and professional fee including audit fee of HK$35.68 million, repair and maintenance of HK$12.89 million and depreciation including amortization of HK$13.32 million. Total Expenses of the Remaining Group accounted for 19.56% of the total revenue of the Remaining Group, which was comparable to FY2021 of the Remaining Group of 25.67%.

### Finance costs

For the FY2022, the finance costs of the Remaining Group were HK$67.54 million, a slight increase of HK$1.55 million as compared to that of last year (FY2021 of the Remaining Group: HK$65.99 million). The increase was mainly due to addition loans borrowing in the PRC for the further development of renewable energy business which was offset by the repayment partial of fixed coupon bonds and other loans. Finance costs of the Remaining Group of finance costs were mainly interests on fixed coupon bonds, finance leases and other loans borrowing.

### Net gain on financial assets at fair value through profit or loss

For the FY2022, net gain on financial assets at fair value through profit or loss ("**FVPL**") of the Remaining Group amounted to HK$0.70 million, fell by HK$15.20 million from the profit of HK$15.90 million for the FY2021 of the Remaining Group. Included in net gain on FVPL was mainly including dividend income received and the change in value of unlisted investment in the PRC.

### Impairment loss recognised on other intangible assets, goodwill, right of use assets and property, plant and equipment ("PPE")

For the FY2022, the Remaining Group recorded the impairment loss on other intangible assets of HK$1.48 million (FY2021 of the Remaining Group: HK$4.91 million), goodwill of HK$22,000 (FY2021 of the Remaining Group: HK$7.72 million), right of use assets of HK$1.30 million (FY2021 of the Remaining Group: HK$13.10 million) and PPE of HK$13.49 million (FY2021 of the Remaining Group: HK$30.80 million) respectively, mainly provided for the renewable energy projects which are located in provinces of Hunan, Shangdong, Hebei and Fujian, the PRC. The reasons of impairment loss provided on these projects are (i) an expected decrease in new garbage delivered to the landfill sites, which caused the volume of landfill gas collected and the electricity generated less than expected; and (ii) the operating cost continued to increase. Since recoverable amounts of the relevant cash-generating units for the aforesaid projects are less than their carrying amount of assets, this resulted in an impairment loss in FY2022. In this regard, independent professional valuers were engaged by the Company to perform the impairment assessment.

### Net impairment loss recognised on trade and other receivable

During the year under review, settlement of receivables from debtors of the Remaining Group slowed down as a result of the continuing spread of the COVID-19 epidemic and its protracted negative impact on the economy. As a result of delay in repayment, prolonged overdue of receivable balance and default in repayment of respective loans and advances, led to an increase in expected credit loss (the "**ECL**") in 2022. Hence, the Remaining Group had substantially increased the impairment loss on loan receivable and other receivable for the FY2022. For the FY2022, the Remaining Group recorded net allowance for ECL of HK$122.77 million (FY2021 of the Remaining Group: HK$69.40 million), (the "**Impairment Loss**") which consists of HK$1.27 million (FY2021 of the Remaining Group: HK$2.21 million) for trade receivable (the "**Trade Receivable**"), HK$93.22 million (FY2021 of the Remaining Group: HK$39.99 million) for loan and interest receivables (the "**Loan Receivables**") and HK$28.28 million (FY2021 of the Remaining Group: HK$27.20 million) for other receivables, deposits and prepayments (the "**Other Receivables**").

*Impairment Loss on Loans Receivables*

The recognition of the Impairment Loss on Loan Receivables were mainly due to the defaults of repayment on the loans (the "**Loans**") made to loan borrowers (the "**Borrowers**") which mainly comprised of independent private companies in the PRC. The reasons for the defaults by the Borrowers were mainly due to (i) refusal of repayment by certain Borrowers with respective to relevant Loans; (ii) winding up by the Hong Kong court; and (iii) deregistration of the companies in the PRC.

*Impairment Loss on Other Receivables*

Impairment loss on Other Receivables comprised of impairment on advance made by a subsidiary of the Company to an independent entity (the "**Entity**") for the procurement of equipment facilities for the Nanjing Property Project (the "**Advance**"). As the Entity failed to fulfill the obligation of the procurement contract and failed to repay the deposit, the Remaining Group after taking relevant recovery measures, noticed during the year that the Entity was deregistered. For further details, please refer to section headed "TRADE AND OTHER RECEIVABLES" below in this report.

To recover the above-mentioned defaulted receivables, the Remaining Group has issued demand letters, dunning letters and submitted a number of statements of claims to the PRC court and/or Hong Kong court in order to recover the Loans and Advances. The Remaining Group has also been in negotiation with several Borrowers including the relevant guarantors and the Entity's shareholders for settlement of the respective Loans or Advances. If no further development on repayment is achieved by the Remaining Group, the Remaining Group will continue to instruct legal advisers to take legal actions in respect of the recovery of the relevant Loans and Advances.

*Assessment of ECL*

The Company has engaged an independent valuer (the "**Valuer**"), to conduct a valuation (the "**Valuation**") on potential default or defaulted receivables to support the relevant impairment assessment in estimating the Impairment Loss.

For the Loan Receivables and Advances, the Valuer adopted the probability (the "**PD Model**") to measure the ECL allowance. Major inputs of the PD Model include (i) probability of default ("**PD**"); (ii) loss given default ("**LGD**"); and (iii) exposure at default ("**EAD**"). The ECL rate has been adjusted for forward-looking factors by taking into account of the expected change in future economic conditions, events and environment, and evaluating the debtor's past default history, presence of collaterals, as well as the debtor's financial position.

The rate of ECL of the Remaining Group's Loan Receivables and Advances as at 31 December 2022 ranged from 9.17% to 100% (the Remaining Group as at 31 December 2021: ranged from 2.26% to 100%) depending on the nature, probability of default and loss incurred in respect of the defaulted Loan Receivables and Advances. Owing to the deteriorating credit status, certain Borrowers and the Entity failed to repay their Loans and Advances which led to the Remaining Group proceed with legal actions to recovery the outstanding balances (the "**Default Events**") as compared to the previous year. Once the Loans and Advances resulted in Default Events, a maximum default probability of 100% will apply as it will indicate a higher probability of default as well as loss and thus resulting in an increase in net allowance for the expected credit losses during the year.

### Share of result from associate

For the FY2022, the Remaining Group shared of loss from an associate amounted to HK$0.13 million (FY2021 of the Remaining Group: profit of HK$32.49 million). Substantial decrease was completion of the disposal of Yingtan Water Group in 2021. As at 31 December 2022, the Remaining Group has held 49% equity interests in Ziyang Oasis Xinzhong Water Environmental Protection Technology Co., Ltd.* (資陽市綠州新中水環保科技有限公司).

### Share of results from joint venture companies

For the FY2022, the Remaining Group shared the profit from joint venture companies of HK$0.78 million (FY2021 of the Remaining Group: profit of HK$1.03 million) which was mainly arising from Yichun Mingyue Mountain Fangke Sewage Treatment Co. Ltd.* ("**Yichun Mingyue Mountain**") (宜春市明月山方科污水處理有限公司). As at 31 December 2022, the Remaining Group has held 65% equity interests in Yichun Mingyue Mountain.

### Loss on disposal of joint venture

For the FY2022, the Remaining Group recorded a loss of HK $1.14 million from the disposal of the 30% sharing interest in the result performance of Shenzhen Ganglong Obstetrics and Gynecology Hospital* — Ophthalmology Project (深圳港龍婦產醫院 — 眼科項目).

### Gain on disposal of subsidiary

For the FY2022, the Remaining Group recorded a gain before taxation of HK$0.53 million from the disposal of Linyi Fenghuang. The disposal was completed in October 2022.

### Income tax

For the FY2022, the Remaining Group of tax recorded HK$27.71 million (FY2021 of the Remaining Group: HK$51.07 million). The decrease of HK$23.36 million was mainly due to tax imposed on the disposal of Yingtan Water Group recorded in 2021, which was partially offset by several renewable energy companies in PRC not entitled to the tax exemption after the expiry of tax concessions period under the relevant tax rules and regulation, income tax charged on the disposal of Linyi Fenghuang, dividend income tax and profit tax arising from the sale of completed properties. No provision for Hong Kong Profits Tax has been made as the Group's operations in Hong Kong did not have any assessable profits subject to Hong Kong Profits Tax. Taxation for the PRC operations is charged at the statutory rate of 25% of the assessable profits under taxation ruling in the PRC. During the year, certain renewable energy companies in PRC are still subject to tax concessions under the relevant tax rules and regulation.

### Exposure to Fluctuations in Exchange Rates

Almost all of the Remaining Group's operating activities are carried out in the PRC with the most of transactions and assets denominated in RMB but the Company's financial statements are denominated in HKD, which is also the functional currency of the Company. The Remaining Group has not adopted any hedging policies. Due to recent fluctuation of RMB exchange rate against HKD, the Remaining Group had been monitoring the foreign exchange exposures closely and to hedge any significant foreign currency exposure in order to minimize the exchange risk, if necessary.

## TREASURY MANAGEMENT

During the year, there had been no material change in the Remaining Group's funding and treasury policies. The Remaining Group continues to manage its financial position carefully and maintains conservative policies in cash and financial management. The Board closely monitors the Remaining Group's liquidity position to ensure that the Remaining Group can meet its funding requirements for business development and the repayment of financial liabilities when due. The Remaining Group generally finances its business operations and capital expenditure with internally generated cash flow, bank facilities and other borrowings. To support medium to long term funding requirements, the Remaining Group also considers via accessing to funding from capital markets, subject to market conditions. On the other hands, the management of the Remaining Group closely reviews the trade receivable balances and any overdue balances on an ongoing basis and only trade with creditworthy parties. The Remaining Group's financial risk management strategies include active managing firm level liquidity and interest rate profile via obtaining substantial long term funding sources, with diversifying term structures and funding instruments. In anticipating new investments or maturity of bank and other borrowings, the Remaining Group will consider new financing while maintaining an appropriate level of gearing.

## CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL POSITION

**The financial position analysis of the Remaining Group**

*As at 31 December*

| | **As at 31 December 2022 The Remaining Group HK$'Million** | As at 31 December 2021 The Group HK$'Million | Linyi Fenghuang HK$'Million | The Remaining Group HK$'Million | 2022 vs 2021 31 December The Remaining Group HK$'Million |
|---|---|---|---|---|---|
| Non-current assets | **2,095.70** | 2,123.02 | 25.53 | 2,097.49 | (1.79) |
| Current assets | **1,367.81** | 1,738.85 | 135.11 | 1,646.80 | (278.99) |
| Total assets | **3,463.51** | 3,861.87 | 160.64 | 3,744.29 | (280.78) |
| Current Liabilities | **1,047.96** | 1,542.10 | 65.70 | 1,464.17 | (416.21) |
| Non-current Liabilities | **513.13** | 393.90 | 0.35 | 393.55 | 119.58 |
| Total liabilities | **1,561.09** | 1,936.00 | 66.05 | 1,857.72 | (296.63) |
| Net current assets | **319.85** | 196.75 | 69.41 | 182.63 | 137.22 |
| Net assets value | **1,902.42** | 1,925.87 | 94.59 | 1,886.57 | 15.85 |
| Cash and cash equivalents | **184.45** | 291.36 | 75.03 | 214.59 | (30.14) |
| Inventories | **67.06** | 278.73 | 2.79 | 275.94 | (208.88) |
| Trade and other receivables | **957.94** | 1,069.07 | 46.51 | 1,067.36 | (109.42) |
| Investment properties | **213.68** | 12.28 | 2.03 | 10.25 | 203.43 |
| Trade and other payables | **509.19** | 577.07 | 31.31 | 545.76 | (36.57) |
| Current assets ratio | **1.31** | 1.13 | | 1.12 | |
| Net asset value per share | **0.66** | 1.21 | | 1.18 | |
| Gearing ratio | **45.07%** | 50.13% | | 49.61% | |

As at 31 December 2022, the Remaining Group financed its operations with internally generated cash flows, bank loans and other borrowings. The Remaining Group recorded a cash and cash equivalents balance of HK$184.45 million (The Remaining Group as at 31 December 2021: HK$214.59 million) including cash held at financial institutions of HK$0.60 million (The Remaining Group as at 31 December 2021: HK$0.15 million). The decrease of HK$30.14 million was mainly due to repayment of debts, further investment in the renewable energy business and slowdown of payment of sewage treatment fees and water tariff as a result of the recurring COVID-19 situation in China. With the steady operating cash flows, the Remaining Group is expected to have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future. The cash and bank balance were denominated in HKD and RMB.

The net current assets for the Remaining Group at 31 December 2022 were HK$319.85 million (The Remaining Group as at 31 December 2021: HK$182.63 million). The current ratio of the Remaining Group (current assets over current liabilities) was 1.31 times as at 31 December 2022 (The Remaining Group as at 31 December 2021: 1.12 times).

As at 31 December 2022, net asset value of the Remaining Group amounted to HK$1,902.42 million (The Remaining Group as at 31 December 2021: HK$1,886.57 million). Net asset value of the Remaining Group per share was HK$0.66 as at 31 December 2022 (The Remaining Group as at 31 December 2021: HK$1.18).

As at 31 December 2022, the Remaining Group's consolidated total assets (including both current and non-current) decreased by HK$280.78 million to HK$3,463.51 million (The Remaining Group as at 31 December 2021: HK$3,744.29 million). The decrease was caused by the transfer of property inventory to cost of sales, resulting from revenue recognised from the sale of completed properties, the completion of subsidiary acquisitions, the increase in ECL on account receivables, and the depreciation of RMB which was partially offset by an increase in deposits paid for the acquisition of biogas generators.

## CAPITAL STRUCTURE, CAPITAL FUND RAISING AND USE OF PROCEEDS

### 1. Placing of new shares under general mandate

During the year, a total of 319,200,000 placing shares have been issued by the Company. On 27 January 2022, the Company entered into the placing agreement with Kingston Securities Limited (the "**Placing Agent**"). Pursuant to the placing agreement, the Company has conditionally agreed to place through the Placing Agent, on a best efforts basis, up to 319,200,000 placing shares (the "**Placing Shares**"), to currently expected to be not fewer than six placees who and whose ultimate beneficial owners are Independent Third Parties and not acting in concert with the connected persons of the Company at a price of HK$0.25 (the "**Placing Price**") per Placing Share. The Placing Shares will be allotted and issued pursuant to the General Mandate. All conditions to the Placing Agreement have been fulfilled and completion of the Placing took place on 23 February 2022. A total of 319,200,000 Placing Shares have been successfully placed by the Placing Agent to not less than six Placees at Placing Price of HK$0.25 per Placing Share pursuant to the terms and conditions of the placing agreement, representing approximately 16.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares immediately upon completion of the Placing. The net proceeds from the Placing, after deduction of the placing commission and other related expenses, amounted to approximately HK$77.60 million. The Company has utilized HK$12.60 million for the Group's general working capital and HK$65.00 million for the repayment of the Group's loan and accrued interests. For details, please refer to announcements dated 27 January 2022 and 23 February 2023. The intended and actual use of the net proceeds from the Placing is stated as below:

| **Amount** HK$'million | **Intended use** | **Actual use** |
|---|---|---|
| 58.55 | Repayment of loan and accrued interest advanced by related parties | Fully utilised as intended |
| 6.45 | Repayment of bonds and accrued interest issued by the Company | Fully utilised as intended |
| 12.60 | General working capital (including but not limited to staff cost, office rent and rates, professional fees and other general corporate expenses) | Fully utilised as intended |
| 77.60 | | |

2. **The rights issue on the basis of one (1) rights share for every two (2) existing shares held on the record date on a non-underwritten basis**

On 20 July 2022, the Company completed a rights issue at a price of HK$0.175 per rights share on the basis of one (1) rights share for every two (2) existing shares held by the qualifying shareholders on the record date (i.e. 24 June 2022) (the "**Rights Issue**") by issuing up to 957,869,883 rights shares. The gross proceeds from the Rights Issue are approximately HK$167.60 million and the net proceeds from the Rights Issue, after deducting all relevant expenses for the Rights Issue, are estimated to be approximately HK$165.80 million of which (i) approximately 80% of the net proceeds is intended to be utilised for the partial repayment of the Group's loans and borrowings; and (ii) approximately 20% of the net proceeds is intended to be used for general working capital(including but not limited to staff cost, office rent and rates, professional fees and other general corporate expenses). For details, please refer to (i) announcements dated 13 June 2022 and 20 July 2022 and (ii) prospectus dated 29 June 2022. The intended and actual use of the net proceeds from the Right Issue is stated as below:

| **Amount**<br>HK$'million | **Intended use** | **Actual use** |
|---:|---|---|
| 122.13 | Repayment of loan and accrued interest advanced by related parties | Fully utilised as intended |
| 10.51 | Repayment of bonds and accrued interest issued by the Company | Fully utilised as intended |
| 33.16 | General working capital (including but not limited to staff cost, office rent and rates, professional fees and other general corporate expenses) | Fully utilised as intended |
| 165.80 | | |

### 3. The capital reduction and the sub-division

On 26 January 2022 (before 9:00, HK time), the capital reduction and the subdivision had become effective. The reduction of the issued share capital of the Company from HK$0.50 per each issued ordinary share to HK$0.01 per each issued ordinary share of the Company effected by special resolution passed at an extraordinary general meeting of the Company held on 25 October 2021 and with the sanction of an Order of the Grand Court of the Cayman Islands dated 19 January 2022 (the "**Capital Reduction**"). Each authorised but unissued ordinary share of HK$0.50 each shall be subdivided into fifty unissued ordinary shares of HK$0.01 each in the share capital of the Company (the "**Sub-division**"). For details, please refer to (i) the announcements dated 14 September 2021 and 7 December 2021 and (ii) the circular dated 29 September 2021.

Save as disclosed above, there was no movements in either the Company's authorised or issued share capital during the year under review.

## CAPITAL EXPENDITURES

During the year under review, the Remaining Group incurred capital expenditures amounting to HK$93.21 million (the Remaining Group as at 31 December 2021: HK$53.03 million) for acquisition of concession intangible assets.

## INVESTMENT PROPERTIES

As at 31 December 2022, the Remaining Group held the following investment properties for leasing:

| Location | | Usage | Approximately gross floor area (square meters) | Lease terms | % of occupancy rate | The Group's interest (%) |
|---|---|---|---|---|---|---|
| **Yichun Properties** | | | | | | |
| 1 | No. 542, Mingyue North Road<br>Yuanzhou District, Yichun City<br>Jiangxi Province, the PRC | Commercial | 556.15 | Long | 100% | 51% |
| 2 | 13–15 Zhongshan West Road<br>Yuanzhou District, Yichun City<br>Jiangxi Province, the PRC | Shop | 96.00 | Long | 100% | 51% |
| 3 | Gas station on South Huancheng<br>Road, Yuanzhou District, Yichun City<br>Jiangxi Province, the PRC | Factory | 170.00 | Long | 100% | 51% |
| **Nanjing Property Project** | | | | | | |
| | No. 88, Kangyuan Road<br>Qilin Science and Technology Innovation<br>Park, Nanjing | Commercial | 17,866.00 | Long | 47.69% | 96.13% |
| | | | 18,688.15 | | | |

As at 31 December 2022, the carrying value of Yichun Properties and Nanjing Property Project recorded HK$213.68 million (the Remaining Group as at 31 December 2021: HK$10.25 million). Substantial increase in investment properties by HK$203.43 million was Nanjing Property Project commenced to lease the office buildings in 2022. As at 31 December 2022, the Remaining Group had a total gross floor area of 18,688.15 square meters (the Remaining Group as at 31 December 2021: total gross floor area of 822.15 square meters). For the FY2022, the gross rental income of the Remaining Group after deducting the related outgoings amounted to HK$0.67 million which increased by 71.79% compared with FY2021 (FY2021 of the Remaining Group: HK$0.39 million).

## INVENTORIES

As at 31 December 2022, the inventories of the Remaining Group recorded HK$67.06 million (the Remaining Group as at 31 December 2021: HK$275.94 million), decreased by HK$208.88 million mainly because the legal assignments of Nanjing Property Project were transferred to customers in second half of 2022 and the related inventories recognized as cost of sales in the corresponding period. The inventory of the Remaining Group comprised of raw material and work-in-progress of HK$67.06 million (the Remaining Group as at 31 December 2021: HK$61.35 million) and no properties under development for sale (the Remaining Group as at 31 December 2021: HK$214.59 million).

## PORTFOLIOS AND PERFORMANCE OF SECURITIES INVESTMENT

As at 31 December 2022, the fair value of securities investments of the Remaining Group including held-for-trading investment and held- for-long term investment recorded HK$33.96 million (the Remaining Group as at 31 December 2021: HK$20.76 million) representing 0.98% of the total assets value of HK$3,463.51 million as at 31 December 2022. The securities investments of the Remaining Group comprised listed securities in Hong Kong, investment fund and fixed income product in the PRC. The following analysis was the Remaining Group's investments at the end of reporting period:

### List of stocks in terms of market value as at 31 December 2022

| Name of stock listed on the Stock Exchange | Stock code | Brief description of the business | Number of shares held as at 31 December 2022 | No. of issued ordinary share as at 31 December 2022 | Effective interest held as at 31 December 2022 | Initial investment cost HK$'000 | Market value as at 31 December 2022 HK$'000 | Unrealised/ Realised gain/(loss) for the year ended 31 December 2022 HK$'000 | Accumulated unrealised holding gain/(loss) on revaluation HK$'000 | Percentage to total assets value of the Group as at 31 December 2022 | Classification | Dividend received/ receivable during the year HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| China Best Group Holding Ltd | 370 | Trading of electronic product, building construction contracting business, project management service, centralised heating business and money lending business | 6,208,000 | 1,525,284,939 | 0.41% | 5,157 | 2,731 | – | (2,426) | 0.08% | FVOCI | – |
| Hong Kong Finance Investment Holding Group Ltd | 7 | Sales of electronic products and equipment, exploration and production of mineral, oil and gas, financial business and property investment | – | 4,000,000,000 | 0.00% | – | – | (110) | – | 0.00% | FVPL | – |
| Fy Financial (Shenzhen) Co., Ltd. — H Shares | 8452 | Provision of financial leasing, factoring, advisory services and customer referral services and the supply of medical equipment in the PRC and leasing of 5G base station and energy storage business | 844,000 | 89,840,000 | 0.94% | 988 | 367 | – | (621) | 0.01% | FVOCI | – |
| China Tangshang Holdings Limited | 674 | Money lending business, property sub-leasing and investment business and property development business | 3,580,000 | 2,894,466,570 | 0.12% | 908 | 745 | – | (163) | 0.02% | FVOCI | – |
| Future Bright Mining Holdings Ltd | 2212 | Production and sale of marble and marble related products; and trading of commodities | – | 877,716,000 | 0.00% | – | – | (6) | – | 0.00% | FVPL | – |
| Chinese Energy Holdings Limited (Note 3) | 8009 | General trading (including market sourcing of technical and electronic products); trading of LNG products; money lending and investment in financial assets | 250 | 58,900,537 | 0.00% | 2 | – | – | (2) | 0.00% | FVPL | – |
| **Sub- total** | | | | | | | 3,843 | (116) | (3,212) | 0.11% | | – |
| **Name of unlisted investment** | | **Brief description of the business** | | | | | | | | | | |
| Guangdong Finance Industry Strategic Fund * (Note 1) | | Investment in unlisted equity | N/A | | N/A | 11,195 | 12,203 | 641 | 1,008 | 0.35% | FVPL | 36 |
| CITIC China Securities Co, Ltd. * | | Investment in unlisted equity | N/A | | N/A | – | – | 135 | – | 0.00% | FVPL | – |
| Fuzhou Qingyu New Energy Equity Investment Partnership (Limited Partnership) * (Note 2) | | Investment in unlisted equity | N/A | | N/A | 17,912 | 17,912 | – | – | 0.52% | FVPL | – |
| **Sub- total** | | | | | | | **30,115** | **776** | **1,008** | **0.87%** | | **36** |
| **Total** | | | | | | | **33,958** | **660** | **(2,204)** | **0.98%** | **–** | **36** |

Note 1: The function currency of the investment is RMB. The initial investment cost is RMB10,000,000 (Equivalent to HK$11,195,000). The market value as at 31 December 2022 is RMB10,900,000 (Equivalent to HK$12,203,000).

Note 2: The function currency of the investment is RMB. The initial investment cost is RMB16,000,000 (Equivalent to HK$17,912,000). The market value as at 31 December 2022 is RMB16,000,000 (Equivalent to HK$17,912,000).

Note 3: Chinese Energy Holdings Limited has been suspended its trading in shares since 15 July 2022.

FVPL: Financial assets at fair value through profit or loss.

FVOCI: Financial asset at fair value through other comprehensive income.

For the FY2022, the Remaining Group recorded a net gain of HK$0.70 million on FVPL (FY2021 of the Remaining Group: gain of HK$15.90 million). Given the fluctuation in the worldwide financial markets and the impact of COVID-19 pandemic, the Board expected that the fair value of equity investment may be declined. In light of this, the Board has planned to scale down the short-term investment in equity trading and manage the investment portfolio in accordance with the Remaining Group's investment objective and policy with a view of gaining good investment yields for our shareholders. In views of the above, the Board will monitor stock market development closely and capture opportunities in a prudent manner so as to balance investment risks of the Remaining Group.

## TRADE AND OTHER RECEIVABLES

As at 31 December 2022, the Remaining Group's trade and other receivables, net of loss allowance were approximately HK$957.94 million (the Remaining Group as at 31 December 2021: HK$1,067.36 million). These comprised of: (i) trade receivables of HK$727.34 million, (ii) other receivables of HK$57.86 million, (iii) loan receivables of HK$49.38 million and (iv) deposits and prepayments of HK$123.36 million.

### (A) Trade Receivable

As at 31 December 2022, trade receivables, net of loss allowance of the Remaining Group increased by HK$55.83 million to HK$727.34 million (the Remaining Group as at 31 December 2021: HK$671.51 million) which was primarily attributable to addition government on-grid tariff subsidies, the sale of Nanjing Property Project, the increase in income of construction services, slowdown payment of water supply tariff and sewage treatment fees.

(i) The net trade receivable from the renewable energy business of HK$612.70 million divided into: (i) the government on-grid tariff subsidies receivable were amounted to HK$587.42 million (the Remaining Group as at 31 December 2021: HK$578.24 million) and (ii) the electricity sales receivable from local grid companies was HK$25.28 million (the Remaining Group as at 31 December 2021: HK$32.48 million), which in aggregate accounted for 84.24% of trade receivables of the Remaining Group. The above-mentioned tariff subsidies receivables will be settled in accordance with the prevailing government payment policies including (i) Caijian [2020] No. 4 Guidelines on the Stable Development of Non-Water Renewable Energy Generation (關於促進非水可再生能源發電健康發展的若干意見) and Caijian [2020] No. 5 Measures for Administration of Subsidy Funds for Tariff Premium of Renewable Energy (可再生能源電價附加資金管理辦法) updated in January 2020 which jointly issued by the Ministry of Finance, the National Development and Reform Commission and the National Energy Administration; and (ii) Caijian [2020] No. 70 Notice on Accelerating the Review of the List of Renewable Energy Power Generation Subsidy Projects (加快推進可再生能源發電補貼項目清單審核有關工作的通知) published by Ministry of Finance in November 2020 and the prevalent payment trends of Ministry of Finance of the PRC. There were no pre-determined due date for settlement of the tariff subsidies. The trade receivables from renewable energy business were considered as fully recoverable given there were no bad debt experiences with the local grid companies in the past and the above-mentioned tariff subsidies were provided by the relevant PRC government authorities. During the year under review, the management has reassessed the credit risk based on the historical settlement records, the ageing of the tariff subsidies receivables and taking into account prevailing economic conditions as at 31 December 2022, the Remaining Group considered the default risk for such balances to be insignificant and the expected credit loss to be minimal. During the year, the impairment loss on trade receivable relating to the renewable energy business was HK$1.27 million mainly provided for the tariff subsidies receivables of HK$1.22 million (FY2021 of the Remaining Group: HK$2.21 million).

(ii) The net trade receivable balances from the water supply and the sewage treatment and the related construction services were amounted to HK$73.78 million (the Remaining Group as at 31 December 2021: HK$49.48 million), representing 10.14% of trade receivables of the Remaining Group. The increase of HK$24.30 million was mainly due to the increase of revenue in water supply, the increase in income of construction services as several projects completed construction and new construction works commenced during FY2022, and the slowdown of payment of water supply tariff by households and sewage treatment fees by related local PRC government as a result of the recurring COVID-19 situation in China. Generally, trade receivables would be written off if the Group is of the view that the recovery of the amount is remote. In view of historical repayment record, the Group considered the default risk for such balances to be insignificant and, the ECL to be minimal. During the year under review, no impairment loss was recognized on these trade receivable (FY2021 of the Remaining Group: Nil).

(iii) The net trade receivable balances from the sale of completed properties recorded HK$34.14 million (the Remaining Group as at 31 December 2021: Nil). Considerations in respect of the completed properties sold in Nanjing Property Project are payable by the purchasers in accordance with the terms of the related sale and purchase agreements. In second half of 2022, the properties sale were handed over to customers. Those receivable balances are pending for completing their mortgage procedures. The Remaining Group considered the default risk for such balances to be insignificant. Accordingly, no impairment loss on this segment was provided (FY2021 of the Remaining Group: Nil).

**(B) Other receivable**

As at 31 December 2022, other receivables, net of loss allowance of the Remaining Group dropped by HK$51.90 million to HK$57.86 million (the Remaining Group as at 31 December 2021: HK$109.76 million) primarily owing to the provision of impairment loss of HK$28.16 million and the decrease in tax recoverable. Other receivables represented mainly tax recoverable, the sale proceeds of equipment, income receivable from the sludge treatment project, advance to property sales agent, and advance to the Entity for the procurement of equipment facilities for the Nanjing Property Project. Despite the Remaining Group had with its best endeavor to recover such advance from the Entity, nevertheless, during the year, the Remaining Group discovered that the Entity had deregistered in PRC and had failed to supply the equipment facilities for the Nanjing Property Project. In this regard, the Remaining Group authorised its legal counsel to initiate legal procedures against this Entity's shareholders. During the year under review, net impairment allowance of HK$28.16 million was recognized mainly provided for this Entity of HK$25.75 million (FY2021 of the Remaining Group: HK$4.52 million).

### (C) Loan receivable

As at 31 December 2022, loans receivables, net of loss allowance of the Remaining Group decreased by HK$83.46 million to HK$49.38 million mainly due to recognition of impairment loss of HK$93.22 million (the Remaining Group as at 31 December 2021: HK$132.84 million). The loans receivables mainly comprised of loans to independent private companies in the PRC (the "**Borrowers**"). The loans are interest-bearing at rates ranging from 4% to 24% per annum and with maturities ranging from 1 month to 36 months. None of the Borrowers has pledged any his/its assets to the Group to secure the loans. The Remaining Group has obtained the personal guarantee provided by the respective guarantors as a security for certain loans. Prior to granting the respective loans to the Borrowers, the Remaining Group had conducted a credit assessment on certain Borrowers, which includes (i) conducted background search on the respective Borrowers; (ii) obtained and reviewed information in relation to the financial background of the Borrowers; and (iii) the assessment of whether the Borrowers would provide a pledge and/or guarantee in relation to their respective loans. During the year, the Remaining Group noticed that many Borrowers had failed to repay the loans when due, with certain Borrowers went into liquidation and/or deregistration. Since the date of overdue and/or default of the relevant borrowings, follow-up actions including but not limited to issuing demand letters, negotiating repayment terms and methods with Borrowers and/or guarantors and initiating legal proceedings on a case-by-case basis by the decision of the management of the Company has been carry-out. In view of the above, the impairment loss recognized on loans receivable was amounted to HK$93.22 million (FY2021 of the Remaining Group: HK$39.99 million).

### (D) Deposits and prepayments

As at 31 December 2022, deposits and prepayments, net of loss allowance of the Remaining Group recorded HK$123.36 million (the Remaining Group as at 31 December 2021: HK$153.25 million) which mainly represented amortisation of repairing and drilling cost, prepayment relating to the payment in advance for material procurement and construction works, and consultancy fee for the provision of finance lease arrangement, security deposits paid including glass management contract, construction service contracts and the finance lease and advances made to various potential business partners to enhance business cooperation and relationship with the respective parties given the Remaining Group has been exploring business opportunities with them. During the year under review, the impairment loss recognised on deposits and prepayments was amounted to HK$0.12 million (FY2021 of the Remaining Group: HK$22.68 million).

## LIABILITIES AND GEARING

As at 31 December 2022, the Remaining Group's total liabilities (including both current and non-current) recorded HK$1,561.09 million (the Remaining Group as at 31 December 2021: HK$1,857.72 million). The reduction was due to the repayment of debts and the contract liabilities being transferred to the related revenue. Deposits received from customers included in the contract liabilities, the revenue recognized from the sale of properties when the legal assignments were completed. Except for the issuance of bonds and non-financial institution loan denominated in HK$, borrowings were mainly denominated in RMB.

The Remaining Group's gearing ratio as at 31 December 2022 was 45.07% (the Remaining Group as at 31 December 2021: 49.61%). The ratio was calculated by dividing total liabilities of the Remaining Group of HK$1,561.09 million (the Remaining Group as at 31 December 2021: HK$1,857.72 million) over total assets of the Remaining Group of HK$3,463.51 million (the Remaining Group as at 31 December 2021: HK$3,744.29 million).

As at 31 December 2022, the Remaining Group's total bank and other borrowings were HK$485.38 million (the Remaining Group as at 31 December 2021: HK$561.30 million). For the maturity profile, refer to the table below:

| | Remaining Group | | | |
|---|---|---|---|---|
| | **31 December 2022** | | 31 December 2021 | |
| **Debt Analysis** | **HK$'000** | **%** | HK$'000 | % |
| **Classified by maturity** | | | | |
| **— repayable within one year** | | | | |
| Bank borrowings | **60,602** | **12.49** | 73,833 | 13.15 |
| Other loans | **184,519** | **38.02** | 365,733 | 65.16 |
| | **245,121** | **50.51** | 439,566 | 78.31 |
| **Classified by maturity** | | | | |
| **— repayable more than one year** | | | | |
| Bank borrowings | **223,755** | **46.09** | 105,886 | 18.86 |
| Other loans | **16,506** | **3.40** | 15,844 | 2.82 |
| | **240,261** | **49.49** | 121,730 | 21.68 |
| **Total bank and other borrowings** | **485,382** | **100.00** | 561,296 | 100.00 |
| **Classified by type of loans** | | | | |
| Secured | **343,162** | **70.70** | 447,691 | 79.76 |
| Unsecured | **142,220** | **29.30** | 113,605 | 20.24 |
| | **485,382** | **100.00** | 561,296 | 100.00 |
| **Classified by type of interest** | | | | |
| Fixed rate | **361,330** | **74.44** | 395,815 | 70.52 |
| Variable-rate | **100,436** | **20.69** | 164,203 | 29.25 |
| Interest free rate | **23,616** | **4.87** | 1,278 | 0.23 |
| | **485,382** | **100.00** | 561,296 | 100.00 |

## OTHER LOANS

**1.** The analysis of issuance of bonds through the placing agents is illustrated as follows:

i. On 11 January 2018, the Company entered into a placing agreement with Prior Securities Limited (the "**Placing Agent**") pursuant to which the Placing Agent on a best effort basis, arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of three years in aggregate principal amount of up to HK$100 million ("**Bond A**"). On 10 January 2020, the Company has completed to issue the Bond A to the placees in an aggregate principal amount of HK$20 million. As at 31 December 2022, the Bond A was fully settled (As at 31 December 2021: HK$5.64 million).

ii. On 18 January 2018, the Company entered into a placing agreement with Placing Agent pursuant to which the Placing Agent on a best effort basis, arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of 90 months in aggregate principal amount of up to HK$100 million ("**Bond B**"). On 17 January 2020, the Company has completed to issue the Bond B to the placees in an aggregate principal amount of HK$20 million. As at 31 December 2022, the outstanding Bond B amounted to HK$16.45 million and was classified as an other loan (As at 31 December 2021: HK$15.84 million).

**2. Other bonds and loans from related companies**

For the issuance of bonds through the placing agents as above, the Company has also issued other bonds to subscribers at a fixed rate of 5% per annum with a term of 3 years (the "**Other Bonds**") and was classified as an other loan. As at 31 December 2022, Other Bonds were fully settled (As at 31 December 2021: HK$37.91 million).

As at 31 December 2022, the Bond B of HK$16.45 million and loans from related companies of HK$87.00 million in aggregate amounted to HK$103.45 million (the Remaining Group as at 31 December 2021: HK$334.41 million), representing of 51.46% of the other loans, which were utilized as general working capital, repayment of debts and/or acquisition activities. Details for loans from related companies are set out in note 46(a) to the consolidated financial statement.

## TRADE AND OTHER PAYABLES

As at 31 December 2022, the Remaining Group's trade and other payables were approximately HK$509.19 million (the Remaining Group as at 31 December 2021: HK$545.76 million). The decrease in trade and other payables of HK$36.57 million was mainly due to the depreciation of RMB and settled partial outstanding construction liabilities relating to Nanjing Property Project. The credit terms of trade payables vary according to the terms agreed with different suppliers.

## BUSINESS REVIEW

The financial performance analysis of the Remaining Group by segments is as follows:

| | Revenue | | | | Gross Profit (GP) | | | | | | 2022 vs 2021 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HK$'M 2022 | % to the total | HK$'M 2021 | % to the total | HK$ M 2022 | % to the total | % GP margin | HK$'M 2021 | % to the total | % GP margin | Revenue HK$ M | Gross Profit HK$ M | GP Margin % |
| Water supply business | 122.10 | 10.39 | 114.29 | 11.52 | 50.34 | 13.93 | 41.23 | 45.33 | 11.95 | 39.66 | 7.81 | 5.01 | 1.57 |
| Sewage treatment business | 83.45 | 7.10 | 83.09 | 8.38 | 28.22 | 7.81 | 33.82 | 27.22 | 7.18 | 32.76 | 0.36 | 1.00 | 1.06 |
| Construction service business | 308.15 | 26.21 | 216.37 | 21.80 | 91.36 | 25.28 | 29.65 | 74.58 | 19.66 | 34.47 | 91.78 | 16.78 | (4.82) |
| **Sub-total** | 513.70 | 43.70 | 413.75 | 41.70 | 169.92 | 47.02 | 33.08 | 147.13 | 38.79 | 35.56 | 99.95 | 22.79 | (2.48) |
| Exploitation and sale of renewable energy business | 454.37 | 38.66 | 569.20 | 57.38 | 149.99 | 41.53 | 33.01 | 230.80 | 60.85 | 40.55 | (114.83) | (80.81) | (7.54) |
| Property Development | 207.32 | 17.64 | 9.15 | 0.92 | 41.38 | 11.45 | 19.96 | 1.36 | 0.36 | 14.86 | 198.17 | 40.02 | 5.10 |
| **Total** | 1,175.39 | 100.00 | 992.10 | 100.00 | 361.29 | 100.00 | 30.74 | 379.29 | 100.00 | 38.23 | 183.29 | (18.00) | (7.49) |

### 1.1 Water supply business

Upon completion of the disposals of Yingtan Water Group and Linyi Fenghuang in 2021 and 2022 respectively, the Remaining Group has only one city water supply project which is located in Jiangxi provinces, the PRC. The daily aggregate water supply capacity of the Remaining Group was approximately 0.26 million tonne (FY2021 of the Remaining Group: 0.24 million tonne). Total water supply to the Jiangxi during the year recorded 65.19 million tonne (FY2021 of the Remaining Group: 59.19 million tonne), increased by 10.14% over the last corresponding period. For the FY2022, the revenue and gross profit of the Remaining Group from water supply business amounted to HK$122.10 million and HK$50.34 million respectively, representing 10.39% and 13.93% of the Remaining Group's total revenue and total gross profit respectively. Compared with FY2021, the revenue of the Remaining Group and gross profit recorded an increase of HK$7.81 million and HK$5.01 million respectively, The increase in revenue and gross profit was the increase of water supply by Yichun Water project following the completion of expansion of water supply plant in Yichun Water project resulting in enhancing the water supply capacity by 20,000 tonne per day. The average rates for the water supply of the Remaining Group was HK$1.80 per tonne (FY2021 of the Remaining Group: HK$1.96 per tonne).

The analysis of financial performance by segment was as follows:

| | | For the year ended 31 December | | |
|---|---|---|---|---|
| | | **2022** | 2021 | Variance |
| **Water Supply Business** | | | | |
| Revenue | HK$'million | **122.10** | 114.29 | 7.81 |
| Gross profit | HK$'million | **50.34** | 45.33 | 5.01 |
| Gross profit % | % | **41.23** | 39.66 | 1.57 |
| Designed daily capacity of water supply | Tonne | **260,000** | 240,000 | 20,000 |

Analysis of water supply projects on hand is as follows:

| Project name | Equity interest held by the Company (%) | Designed daily capacity of water supply (tonne) | Provincial cities in PRC | Exclusive operating right (expiry in) |
|---|---|---|---|---|
| Yichun Water | 51 | 260,000 | Jiangxi | 2034 |

### 1.2 Sewage treatment business

As at 31 December 2022, the Remaining Group has five sewage treatment projects which are located in Jiangxi, Guangdong and Shandong provinces (FY2021 of the Remaining Group: five projects) and the daily aggregate sewage disposal capacity was approximately 240,000 tonne (FY2021 of the Remaining Group: 240,000 tonne). For the FY2022, the revenue and gross profit of the Remaining Group were amounted to HK$83.45 million and HK$28.22 million respectively, representing 7.10% and 7.81% of the Remaining Group's total revenue and total gross profit respectively. During the year, the Remaining Group processed in aggregate of 71.11 million tonne of waste water (FY2021 of the Remaining Group: 71.00 million tonne), represented an increase of 0.15% over the last corresponding year. Compared with the FY2021, the revenue and gross profit of the Remaining Group increased by HK$0.36 million and HK$1.00 million respectively. The rise in revenue was attributable to the increase of waste water processing volume. The average rates for sewage treatment of the Remaining Group ranged from HK$0.99 to HK$1.44 per tonne (FY2021 of the Remaining Group: HK$1.09 to HK$1.50 per tonne).

The analysis of financial performance by segment was as follows:

| | | For the year ended 31 December | | |
|---|---|---|---|---|
| | | **2022** | 2021 | Variance |
| **Sewage Treatment Business** | | | | |
| Revenue | HK$'million | **83.45** | 83.09 | 0.36 |
| Gross profit | HK$'million | **28.22** | 27.22 | 1.00 |
| Gross profit % | % | **33.82** | 32.76 | 1.06 |
| Designed daily sewage disposal capacity | Tonne | **240,000** | 240,000 | – |

Analysis of sewage treatment projects on hand is as follows:

| | Project name | Equity interest held by the Company (%) | Designed daily sewage disposal capacity (tonne) | Provincial cities in PRC | Exclusive operating right (expiry in) |
|---|---|---|---|---|---|
| 1 | Jining Haiyuan | 70 | 30,000 | Shandong | 2036 |
| 2 | Jining Haisheng | 100 | 30,000 | Shandong | 2049 |
| 3 | Gaoming Huaxin | 70 | 20,000 | Guangdong | 2033 |
| 4 | Yichun Fangke | 54.33 | 140,000 | Jiangxi | 2036 |
| 5 | Yichun Mingyue Mountain | 65 | 20,000 | Jiangxi | 2047 |
| **Total** | | | **240,000** | | |

### 1.3 Construction services for water supply and sewage treatment infrastructure

Construction services included water meter installation, infrastructure construction and pipeline construction and repair. These were the Remaining Group's second major sources of revenue and gross profit contributing HK$308.15 million and HK$91.36 million respectively, representing 26.21% and 25.28% of the Remaining Group's total revenue and total gross profit respectively. Compared with the FY2021, the revenue and gross profit of the Remaining Group increased by HK$91.78 million and HK$16.78 million due to more construction projects completed and new construction works commenced during the year.

The analysis of financial performance by segment was as follows:

| | | For the year ended 31 December | | |
|---|---|---|---|---|
| | | **2022** | 2021 | Variance |
| **Water supply related installation and construction business** | | | | |
| Revenue | HK$'million | **206.99** | 169.21 | 37.78 |
| Gross profit | HK$'million | **86.65** | 73.89 | 12.76 |
| Gross profit % | % | **41.86** | 43.67 | (1.81) |
| **Water supply and sewage treatment infrastructure construction business** | | | | |
| Revenue | HK$'million | **101.16** | 47.16 | 54.00 |
| Gross profit | HK$'million | **4.71** | 0.69 | 4.02 |
| Gross profit % | % | **4.66** | 1.46 | 3.20 |
| **Total** | | | | |
| Revenue | HK$'million | **308.15** | 216.37 | 91.78 |
| Gross profit | HK$'million | **91.36** | 74.58 | 16.78 |
| Gross profit % | % | **29.65** | 34.47 | (4.82) |

### 1.4 Exploitation and sale of renewable energy business

Up to the date of this report, the Remaining Group has 57 solid waste treatment projects, of which 36 have commenced operation with a total installed capacity of 138.80 MW, the remaining 9 are under construction, with an estimated total installed capacity of 11.7 MW. Up to the date of this report, the Remaining Group secured 10 new projects in Jingchuan, Xinning, Fushun, Xiaoyi, Zhengzhou, Taiyuan, Shandong Yixin, Chengwu Ruili, Huoqiu Huizhao and Kazuo with an estimated total installed capacity is 17.5 MW.

For the FY2022, the revenue and gross profit of the Remaining Group recorded HK$454.37 million and HK$149.99 million respectively representing 38.66% and 41.53% to the Remaining Group's total revenue and total gross profit respectively. Compared with the FY2021, the revenue and gross profit of the Remaining Group decreased by HK$114.83 million and HK$80.81 million respectively. The decline in business performance was because (i) no new garbage was delivered to the landfill site, while the existing landfill gas is not sufficient to support the operation of generators resulting in the cessation of power generation; (ii) new projects are not yet put into operation; (iii) the production of CNG products in Shenzhen Xiaping Landfill Site stopped its operation and (iv) operating costs continued to increase. During the year, the Remaining Group had 36 projects in operation (FY2021 of the Remaining Group: 37 projects), generating approximately 671,769.03 MWh of on-grid electricity which represented a decrease of 10.97% over the same period of 2021 (FY2021 of the Remaining Group: 754,505.73 MWh). As at FY2022, the Remaining Group accumulated a total installed capacity of 150.50 MW, representing an increase of 5.51% compared to the FY2021 (the Remaining Group as at FY2021: 142.64 MW). The average electricity rate of the Remaining Group was HK$0.60 per kilowatt-hour and the average CNG rate of the Remaining Group was HK$2.12 per $m^3$ (FY2021 of the Remaining Group: average electricity rate HK$0.65 per kilowatt-hour and the average CNG rate was HK$1.68 per $m^3$).

Included in revenue was HK$289.88 million (FY2021: HK$338.91 million) and HK$129.34 million (FY2021: HK$161.53 million) derived from the sale of electricity to local grid companies and the government tariff subsidies respectively, representing 63.80% and 28.47% of the total renewable energy revenue respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

The analysis of financial performance by segment is as follows:

| | | For the year ended 31 December | | |
|---|---|---|---|---|
| | | **2022** | 2021 | Variance |
| **Exploitation and sale of renewable energy business** | | | | |
| — Sale of electricity | | | | |
| Revenue | HK$'million | **420.41** | 514.10 | (93.69) |
| Gross profit | HK$'million | **147.56** | 225.19 | (77.63) |
| Gross profit % | % | **35.10** | 43.80 | (8.70) |
| — Sale of compressed natural gas | | | | |
| Revenue | HK$'million | **4.44** | 21.27 | (16.83) |
| Gross (loss)/profit | HK$'million | **(0.41)** | 3.43 | (3.84) |
| Gross (loss)/profit % | % | **(9.23)** | 16.13 | (25.36) |
| — Service income from collection of landfill gas | | | | |
| Revenue | HK$'million | **29.52** | 33.83 | (4.31) |
| Gross profit | HK$'million | **2.84** | 2.18 | 0.66 |
| Gross profit % | % | **9.62** | 6.44 | 3.18 |
| **Total** | | | | |
| Revenue | HK$'million | **454.37** | 569.20 | (114.83) |
| Gross profit | HK$'million | **149.99** | 230.80 | (80.81) |
| Gross profit % | % | **33.01** | 40.55 | (7.54) |

| | | **2022** | **% to total** | 2021 | % to total |
|---|---|---|---|---|---|
| **Summary of revenue** | | | | | |
| Government tariff subsidies | HK$'million | **129.34** | **28.47** | 161.53 | 28.38 |
| The sale of electricity to local grid companies | HK$'million | **289.88** | **63.80** | 338.91 | 59.54 |
| Other | HK$'million | **1.19** | **0.26** | 13.66 | 2.40 |
| | | **420.41** | **92.53** | 514.10 | 90.32 |
| Compressed natural gas & service income from collection of landfill gas | HK$'million | **33.96** | **7.47** | 55.10 | 9.68 |
| | | **454.37** | **100.00** | 569.20 | 100.00 |

Analysis of renewable energy projects on hand is as follows:

| | Provincial | Provincial cities in PRC/ Indonesia | Business mode | Equity interest held by Company (%) | Actual/Expected Commencement date of operation | Exclusive right to collect landfill gas expiry in |
|---|---|---|---|---|---|---|
| 1 | Nanjing Jiaozishan (Note 2) | Jiangsu | Power generation | 100 | October 2013 | June 2025 |
| 2 | Zhu Zhou Biogas (Note 3) | Hunan | Power generation | 100 | November 2014 | October 2023 |
| 3 | Shenzhen Pingshan | Guangdong | Power generation | 100 | January 2016 | September 2024 |
| 4 | Baoji | Shaanxi | Power generation | 100 | May 2016 | April 2028 |
| 5 | Chenzhou Environmental | Hunan | Power generation | 100 | March 2016 | February 2032 |
| 6 | Huayin Heng Yang | Hunan | Power generation | 100 | March 2016 | October 2029 |
| 7 | Chongqing Camda | Chongqing | Power generation | 100 | May 2016 | May 2028 |
| 8 | Hainan Camda | Hainan | Power generation | 100 | May 2016 | Note 1 |
| 9 | Wuzhou Landfill (Note 5) | Guangxi | Power generation | 100 | September 2016 | September 2022 |
| 10 | Changsha Operation Contract* | Hunan | Power generation | – | May 2014 | October 2039 |
| 11 | Changsha Qiaoyi Landfill Site* | Hunan | CNG/Power generation | 100 | CNG: December 2015<br>Power generation: October 2017 | |
| 12 | Shenzhen Xiaping Landfill Site | Guangdong | CNG/Power generation | 88 | CNG: July 2015<br>Power generation: January 2018 | April 2030 |
| 13 | Liuyang Biogas | Hunan | CNG/Power generation | 100 | CNG: July 2016<br>Power generation: September 2017 | October 2038 |
| 14 | Qingshan Landfill Site | Guangdong | CNG/Power generation | 100 | CNG: May 2016<br>Power generation: October 2016 | July 2024 |
| 15 | Yichun South Suburban (Note 5) | Jiangxi | Power generation | 100 | July 2017 | September 2026 |
| 16 | Ningbo Qiyao (Note 2) | Zhejiang | Power generation | 100 | February 2017 | June 2028 |
| 17 | Shandong Qiyao (Note 2) | Shandong | Power generation | 100 | May 2017 | November 2029 |
| 18 | Datang Huayin | Hunan | Power generation | 100 | February 2017 | March 2024 |
| 19 | Chengdu City | Sichun | Power generation | 49 | May 2017 | December 2027 |
| 20 | Xinhua (Note 5) | Hunan | Power generation | 100 | November 2017 | December 2026 |
| 21 | Zhangjiakou | Hebei | Power generation | 70 | October 2018 | Note 1 |
| 22 | Fengcheng (Note 3) | Jiangxi | Power generation | 100 | January 2018 | March 2032 |
| 23 | Anqiu City | Shandong | Power generation | 100 | March 2018 | Note 1 |
| 24 | Dongyang | Zhejiang | Power generation | 90 | March 2018 | June 2025 |
| 25 | Haicheng | Liaoning | Power generation | 100 | August 2019 | Note 1 |
| 26 | Anlu (Note 5) | Hubei | Power generation | 90 | January 2019 | February 2030 |
| 27 | Laizhou | Shandong | Power generation | 100 | May 2019 | February 2028 |
| 28 | Jakarta TPST | Jakarta | Power generation | 94 | February 2018 | December 2023 |
| 29 | Guangzhou Huadu | Guangdong | Power generation | 100 | January 2020 | June 2023 |
| 30 | Zhijiang | Hubei | Power generation | 51 | January 2021 | Note 1 |
| 31 | Nanning | Guangxi | Power generation | 100 | April 2020 | April 2028 |
| 32 | Ziyang | Sichun | Power generation | 49 | March 2020 | November 2026 |
| 33 | Hainan Sanya (Note 5) | Hainan | Power generation | 100 | March 2019 | January 2029 |
| 34 | Lingao (Note 3) | Hainan | Power generation | 100 | September 2020 | Note 1 |

| | Provincial | Provincial cities in PRC/ Indonesia | Business mode | Equity interest held by Company (%) | Actual/Expected Commencement date of operation | Exclusive right to collect landfill gas expiry in |
|---|---|---|---|---|---|---|
| 35 | Gaizhou | Liaoning | Power generation | 100 | January 2021 | Note 1 |
| 36 | Lianyuan | Hunan | Power generation | 100 | January 2021 | May 2024 |
| 37 | Liling | Hunan | Power generation | 100 | October 2020 | January 2027 |
| 38 | Chongqing Heishizi Operation Contract | Chongqing | Power generation | – | November 2020 | February 2039 |
| 39 | Ankang | Shaanxi | Power generation | 100 | April 2022 | September 2030 |
| 40 | Dingnan | Jiangxi | Power generation | 100 | December 2021 | Note 1 |
| 41 | Shanghang | Fujian | Power generation | 100 | October 2021 | September 2025 |
| 42 | Yangxin (Note 5) | Hebei | Power generation | 100 | December 2021 | September 2026 |
| 43 | Changting | Fujian | Power generation | 100 | September 2021 | December 2025 |
| 44 | Wuping | Fujian | Power generation | 100 | October 2021 | December 2030 |
| 45 | Wafangdian | Liaoning | Power generation | 100 | April 2023 | Note 1 |
| 46 | Shaowu | Fujian | Power generation | 100 | January 2022 | May 2026 |
| 47 | Xiuyan | Liaoning | Power generation | 100 | December 2023 | Note 4 |
| 48 | Jingchuan | Gansu | Power generation | 100 | December 2023 | Note 1 |
| 49 | Xinning | Hunan | Power generation | 100 | August 2023 | April 2032 |
| 50 | Fushun | Liaoning | CNG | 100 | September 2022 | July 2025 |
| 51 | Xiaoyi | Shanxi | Power generation | 100 | June 2023 | July 2032 |
| 52 | Zhengzhou | Henan | Power generation | 100 | September 2022 | July 2028 |
| 53 | Taiyuan | Shanxi | CNG | 100 | September 2022 | November 2031 |
| 54 | Shandong Yixin | Shandong | CNG | 100 | May 2023 | October 2039 |
| 55 | Chengwu Ruili | Shandong | CNG | 66 | December 2023 | N/A |
| 56 | Huoqiu Huizhao | Anhui | Power generation | 60 | October 2023 | N/A |
| 57 | Kazuo | Liaoning | Power generation | 100 | December 2023 | Note 1 |

* Projects of Changsha Subcontracting Contract and Changsha Qiaoyi Landfill Site are sharing household waste resources in the same site in Changsha.

Note 1: The collection period of landfill gas is until the volume of landfill gas generated from the Landfill reduced to the level of which could not be further utilized.

Note 2: These projects had suspended their operation in 2020.

Note 3: These projects had suspended their operation in 2021.

Note 4: The collection period of landfill gas is until 3 years after landfill site close.

Note 5: These projects had suspended their operation in 2022.

Not applicable: N/A

### 1.5 Property Investment and development

As at 31 December 2022, the Remaining Group has 4 property projects on hand with total site area of approximately 70,985 square meters. As at 31 December 2022, all commercial units in Nanjing Property Project had been sold and handed over in the second half of 2022. For the FY2022 of Remaining Group, the revenue and gross profit from the sale of completed properties recorded HK$207.32 million and HK$41.38 million respectively. (FY2021 of Remaining Group: revenue of HK$9.15 million and gross profit of HK$1.36 million). In accordance with the Group's accounting policy, the Group will recognise the property sale as revenue once the property handed over to the customers with the completion of legal assignment.

The development status of the property projects of the Remaining Group is as follows:

| | Name of project | Location | Stage of completion | Expected date of completion | Major usage/ purpose | Approximate site area (square meters) | Estimated gross floor area after completion (square meters) | Lease term (years) | Group's interest (%) |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Nanjing Property Project (南京物業項目) | No. 88, Kangyuan Road, Qilin Science and Technology Innovation Park, Nanjing | Completed | March 2022 | Research and development/ Commercial (50% for sale and 50% for leasing) | 26,340 | 71,133 | 50 years | 96.13 |
| 2 | Honghu Blue Valley Wisdom Square* (鴻鵠藍谷智慧廣場) | No. 3 Taihao Road, Block 3 Centre, Gaoxin Science and Technology Industrial, Huinan Road East, Huicheng District, Huizhou City, Guangdong Province, the PRC | Under construction (90%) | June 2023 | Research and development Centre/ Commercial (for sale and/or for lease) | 30,544 | 43,738 | 50 years | 100 |
| 3 | Wenbifeng Office Building* (文筆峰辦公樓) | East Zhongshan Road, Yuanzhou District, Yichun City, South of Wenbifeng Waterworks Plot | Under construction (95%) | April 2023 | Other | 764 | 3,176 | Nil | 51 |
| 4 | Water Supply Company Datang Water Quality Monitoring and Control Building Construction* (供水公司大樓水質化驗調度大樓建設) | North side of Xiujiang East Road, Yuanzhou District, Yichun City, Jiangxi Provision, east of Qin Yuan Primary School | Yet to develop | December 2026 | Other | 13,337 | 40,413 | 50 years | 51 |
| | | | | | | 70,985 | 158,460 | | |

# MANAGEMENT DISCUSSION AND ANALYSIS

## ACQUISITION AND/OR FORMATION OF SUBSIDIARIES DURING THE YEAR UNDER REVIEW

The Remaining Group had entered into 10 landfill gas collection and power generation agreements with different government authority departments and companies in the PRC. The investment mode for these projects are building-owning-operation. The analysis of new construction and/or acquisition of renewable energy projects for power generation and/or CNG are as follows:

| | Contract signing time | Date of completion of formation/ acquisition | Name of company | Concession agreement signing department/company | Project name | Provincial cities in PRC where the project is located | Current garbage disposal capacity (tons/day) | Estimated investment amount/ consideration (RMB) | Expected commencement date of operation | Project operation period (years) | Average electricity rate (RMB/unit) or CNG rate (RMB/m$^3$) | Equity interest held by the Company (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **For new construction** | | | | | | | | | | | |
| 1 | December 2020 | April 2022 | Jing Chuan China Water Renewable Environmental Technology Limited* (涇川縣中水再生環保科技有限公司) | Jingchuan Municipal City Administration and Law Enforcement Bureau* (涇川縣城市管理綜合執法局) | Jingchuan Landfill Gas Power Generation Project ("**Jingchuan Project**") | Gansu | 80–110 | 5,000,000 | December 2023 | Until the volume of landfill gas fully utilized | 0.5 | 100 |
| 2 | April 2022 | May 2022 | Xin Ning New China Water Biomass Electricity Limited* (新寧新中水生物質能發電有限公司) | Hunan Modern Environment Technology Co., Ltd. Xinning Branch* (湖南現代環境科技股份有限公司新寧分公司) | Xinning New China Water Biomass Electricity Project ("**Xinning Project**") | Hunan | 200 | 15,000,000 | August 2023 | 10 years | 0.6 | 100 |
| 3 | July 2022 | July 2022 | Xiao Yi City New China Water Environmental Technology Limited* (孝義市新中水環保科技有限公司) | Fenyang Zhongke Yuanchang Renewable Energy Co., Ltd.* (汾陽中科淵昌再生能源有限公司) | Xiaoyi Landfill Gas Power Generation Project ("**Xiaoyi Project**") | Shanxi | 420 | 6,000,000 | June 2023 | 10 years | 0.509 | 100 |
| 4 | March 2022 | April 2022 | Chengwu Ruili Aode Biomass Energy Limited* (成武睿利奧德生物質能源有限公司) | Chengwu Hongao Gas Company Limited* (成武鴻奧燃氣有限公司) | Chengwu Ruili Landfill Gas Project ("**Chengwu Ruili Project**") | Shandong | – | 4,356,000 | December 2023 | N/A | 2.2 | 66 |
| 5 | October 2022 | December 2022 | Kazuo China Water Environmental Technology Limited* (喀左縣中水環保科技有限公司) | Kazuo County Fuan Waste Disposal Company Limited* (喀左縣富安垃圾處理有限公司) | Kazuo County Landfill Gas Power Generation Project ("**Kazuo Project**") | Laoning | 200 | 6,200,000 | December 2023 | Until the volume of landfill gas fully utilized | 0.539 | 100 |

| | Contract signing time | Date of completion of formation/ acquisition | Name of company | Concession agreement signing department/company | Project name | Provincial cities in PRC where the project is located | Current garbage disposal capacity (tons/day) | Estimated investment amount/ consideration (RMB) | Expected commencement date of operation | Project operation period (years) | Average electricity rate (RMB/unit) or CNG rate (RMB/m³) | Equity interest held by the Company (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **For Acquisition** | | | | | | | | | | | |
| 6 | December 2021 | May 2022 | Fushun Shifang Bioenergy Limited* (撫順十方生物能源有限公司) | Fushun City Urban Construction and Development Promotion Center* (撫順市城市建設發展促進中心) | Fushun Landfill Gas Power Generation Project ("**Fushun Project**") | Liaoning | – | 3,110,000 | September 2022 | 3–5 years | 0.53 | 100 |
| 7 | December 2021 | August 2022 | Zhengzhou Xinguan Energy Development Limited* (鄭州新冠能源開發有限公司) | Zhengzhou Sanitation Cleaning Company Limited* (鄭州市環衛清潔有限公司) | Zhengzhou Landfill Gas Power Generation Project ("**Zhengzhou Project**") | Henan | 1,800–2,000 | 22,340,000 | September 2022 | 20 years | 0.586 | 100 |
| 8 | May 2022 | August 2022 | Taiyuan Yuantong Bioenergy Limited* (太原市圜通生物能源有限公司) | Taiyuan Municipal Environmental Hygiene Administration* (太原市市容環境衛生管理局) | Taiyuan Landfill Gas Project ("**Taiyuan Project**") | Shanxi | – | 13,550,000 | September 2022 | 9 years | 0.482 | 100 |
| 9 | September 2022 | October 2022 | Shandong Yixin Water Clean Energy Limited* (山東省益新水清潔能源有限公司) | Dezhou Glutinous Protein Technology Company Limited* (德州谷神蛋白科技有限公司) | Shandong Yixin Landfill Gas Project ("**Shandong Project**") | Shandong | – | 2,770,000 | May 2023 | 17 years | 2.08 | 100 |
| 10 | October 2022 | October 2022 | Huoqiu Huizhao Renewable Energy Technology Co., Ltd* (霍邱徽沼可再生能源科技有限公司) | Huoqiu County People's Government* (霍邱縣人民政府) | Huoqiu Landfill Gas Power Generation Project ("**Huoqiu Project**") | Anhui | – | 15,000,000 | October 2023 | N/A | 0.565 | 60 |

N/A: not applicable

## MATERIAL EVENTS DURING/AFTER THE YEAR UNDER REVIEW

Saved as disclosed in the section headed "ACQUISITION AND/OR FORMATION OF SUBSIDIARIES" above, the Remaining Group also had the following material events during/after the year under review:

### A. Finance Lease Arrangement

(i) On 22 February 2022, New China Water (Nanjing) Renewable Resources Investment Company Limited* (新中水(南京)再生資源投資有限公司) (the "**Lessee 1**"), Shenzhen City New China Water Environmental Technology Limited* ("**Shenzhen New China Water**") (深圳市新中水環保科技有限公司), Shandong Qiyao New Energy Company Limited* (山東齊耀新能源有限公司) and Ningbo Qiyao New Energy Company Limited* (寧波齊耀新能源有限公司) (collectively known as "**Lessees**") entered into the Transfer Agreement with Canton Greengold Financial Leasing Ltd.* (廣東綠金融資租賃有限公司) (the "**Greengold Leasing**"), pursuant to which Greengold Leasing shall purchase the power generation equipment (the "**Leased Assets**") from Lessee 1 for the purchase price of RMB20,000,000 (equivalent to approximately HK$24,740,000) and Greengold Leasing shall lease back the Leased Assets to the Lessees for a lease consideration comprising of a principal amount equivalent to the purchase price and the interest accrued thereon at a rate of 6.35% per annum for a lease period of 48 months commencing from the payment date of the Purchase Price. For details, please refer to the announcement of the Company dated 22 February 2022.

(ii) On 28 February 2022, Shenzhen City Li Sai Industrial Development Limited* (深圳市利賽實業發展有限公司) (the "**Lessee**"), being an indirect non-wholly-owned subsidiary of the Company entered into the Finance Lease Agreement with Huarun Financial Leasing Company Ltd. Shanghai Branch* (華潤融資租賃有限公司上海分公司) (the "**CR Leasing**"), pursuant to which (i) CR Leasing shall purchase the Leased Assets from the Lessee for RMB60,000,000 (equivalent to approximately HK$74,694,000) (the "**Purchase Price**"); and (ii) CR Leasing shall lease back the machinery and equipment for landfill gas and power generation (the "**Leased Assets**") to the Lessee for a lease consideration comprising a principal amount equivalent to the Purchase Price and the interest accrued thereon at a rate of 6.30% per annum for a lease period of 36 months commencing from the payment date of the Purchase Price. For details, please refer to the announcement of the Company dated 28 February 2022.

(iii) On 28 July 2022, Foshan City Gaoming Huaxin Sewage Treatment Company Ltd.* (佛山市高明區華信污水處理有限公司) (the "**Lessee**") entered into the New Transfer Agreement and the New Finance Lease Agreement with Greengold Leasing, pursuant to which (i) Greengold Leasing shall purchase the sewage treatment equipment (the "**Leased Assets**") from the Lessee for the purchase price of RMB18,000,000 (equivalent to approximately HK$21,091,000); and (ii) Greengold Leasing shall lease back the Leased Assets to the Lessee for a lease period of 60 months. The Lessee shall repay Greengold Leasing lease consideration comprising of (i) principal amount equivalent to the Purchase Price; and (ii) the interest accrued thereon at a rate of 6.35% per annum by 60 monthly installments of approximately RMB352,000 (equivalent to approximately HK$412,000) each. For details, please refer to the announcement of the Company dated 28 July 2022.

(iv) a. On 21 June 2022, Chongqing Camda New Energy Equipment Company Limited* (重慶康達新能源有限公司) (the "**Lessee I**"), a subsidiary of the Company, entered into the Transfer Agreement and the Finance Lease Agreement with the Jiansu Financial Leasing Co., Ltd. (江蘇金融租賃股份有限公司) (the "**Lessor**"), pursuant to which (i) the Lessor shall purchase ten (10) sets of landfill gas power generating facilities (the "**Leased Assets**") from the Lessee I for the Purchase Price of RMB13,000,000 (equivalent to approximately HK$14,820,000); and (ii) the Lessor shall lease back the Leased Assets to the Lessee I for A lease period of four (4) years. The Lessee I shall repay Lessor lease consideration comprising of principal amount equivalent to the Purchase Price and the estimated interest accrued thereon at a rate of 7.5224% per annum for a lease period of four (4) years.

b. On 29 August 2022, Zhengzhou Xinguan Energy Development Company Limited* (鄭州新冠能源開發有限公司) (the "**Lessee II**") an indirect non-wholly-owned subsidiary of the Company entered into the Transfer Agreement and the Finance Lease Agreement with the Jiansu Financial Leasing Co., Ltd. (江蘇金融租賃股份有限公司) (the "**Lessor**"), pursuant to which (i) the Lessor shall purchase six (6) sets of landfill gas generators and related equipment situated in an integrated waste treatment plant (the "**Leased Assets**") from the Lessee II for the Purchase Price of RMB17,000,000 (equivalent to approximately HK$19,380,000); and (ii) the Lessor shall lease back the Leased Assets to the Lessee II for a lease period of four (4) years. The Lessee II shall repay Lessor lease consideration comprising of principal amount equivalent to the Purchase Price and the estimated interest accrued thereon at a rate of 7.5224% per annum for a lease period of four (4) years.

For details, please refer to the announcement of the Company dated 29 August 2022.

(v) On 17 October 2022, Changsha New China Water Environmental Technology Limited# (長沙新中水環保科技有限公司) ("**Changsha New China Water**") (the "**Lessee**"), being an indirect non-wholly owned subsidiary of the Company entered into the Finance Lease Agreement with 浙江浙銀金融租賃股份有限公司 (for transliteration purpose only, Zhejiang Zheyin Financial Leasing Company Limited#) (the "**Zheyin Leasing**"), pursuant to which (i) Zheyin Leasing shall purchase the Leased Assets from the Lessee for the Purchase Price of RMB30,000,000 (equivalent to approximately HK$33,057,000); and (ii) Zheyin Leasing shall lease back the landfill gas and natural gas power generating facilities (the "**Leased Assets**") to the Lessee for a lease consideration comprising a principal amount equivalent to the Purchase Price and the interest accrued thereon at a rate of 6.10% per annum for a lease period of 36 months commencing from the payment date of the Purchase Price. For details, please refer to the announcements of the Company dated 17 October 2022.

(vi) • On 24 February 2023, Changsha New China Water (長沙新中水), (the "**Lessee A**"), being an indirect non-wholly owned subsidiary of the Company entered into the Finance Lease Agreement A with Sinopharm Holding (China) Finance Leasing Co., Ltd. (國藥控股(中國)融資租賃有限公司) (the "**Sinopharm Leasing**"), pursuant to which (i) Sinopharm Leasing shall purchase landfill gas power generating facilities (the "**Leased Assets A**") from Lessee A for the purchase price A of RMB30,000,000 (the "**Purchase Price A**") (equivalent to approximately HK$34,047,000); and (ii) Sinopharm Leasing shall lease back the Leased Assets A to Lessee A for a lease consideration comprising the principal amount equivalent to the Purchase Price A and the interest accrued thereon at a rate of 6.5% per annum for a lease period of 36 months commencing from the payment date of the Purchase Price A.

• On 24 February 2023, Qingyuan City Greenspring Environmental Technology Limited# (清遠市青泓環保科技有限公司), (the "**Lessee B**"), being an indirect non-wholly owned subsidiary of the Company, entered into the Finance Lease Agreement B with Sinopharm Leasing, pursuant to which (i) Sinopharm Leasing shall purchase the Leased Assets B from Lessee B for the purchase price B of RMB14,000,000 (the "**Purchase Price B**") (equivalent to approximately HK$15,889,000); and (ii) Sinopharm Leasing shall lease back landfill gas power generating facilities (the "**Leased Assets B**") to Lessee B for a lease consideration comprising the principal amount equivalent to the Purchase Price B and the interest accrued thereon at a rate of 6.5% per annum for a lease period of 36 months commencing from the payment date of the Purchase Price B.

• On 24 February 2023, Shenzhen New China Water (深圳新中水), (the "**Lessee C**"), being an indirect non-wholly owned subsidiary of the Company, entered into the Finance Lease Agreement C with Sinopharm Leasing, pursuant to which (i) Sinopharm Leasing shall purchase landfill gas power generating facilities (the "**Leased Assets C**") from Lessee C for the purchase price C of RMB29,000,000 (the "**Purchase Price C**") (equivalent to approximately HK$32,912,000); and (ii) Sinopharm Leasing shall lease back the Leased Assets C to Lessee C for a lease consideration comprising the principal amount equivalent to the Purchase Price C and the interest accrued thereon at a rate of 6.5% per annum for a lease period of 36 months commencing from the payment date of the Purchase Price C.

• On 8 March 2023, Hainan Camda New Energy Equipment Company Limited* (海南康達新能源有限公司) (the "**Lessee D**"), being an indirect non-wholly owned subsidiary of the Company, entered into the Finance Lease Agreement with Sinopharm Leasing, pursuant to which (i) Sinopharm Leasing shall purchase landfill gas power generating facilities (the "**Leased Assets D**") from the Lessee for the purchase price D of RMB7,000,000(the "**Purchase Price D**") (equivalent to approximately HK$7,923,000); and (ii) Sinopharm Leasing shall lease back the Leased Assets D to the Lessee for a lease consideration comprising the principal amount equivalent to the Purchase Price D and the interest accrued thereon at a rate of 6.5% per annum for a lease period of 36 months commencing from the payment date of the Purchase Price D.

For details, please refer to the announcements of the Company dated 24 February 2023 and 8 March 2023.

(vii) On 23 March 2023, Jining City Haisheng Water Treatment Company Limited# (濟寧市海晟水務有限公司) (the "**Lessee**") entered into the new transfer agreement and the new finance lease agreement with Greengold Leasing, pursuant to which (i) Greengold Leasing shall purchase sewage treatment equipment (the "**Leased Assets**") from the Lessee for the purchase price of RMB30,000,000 (equivalent to approximately HK$34,260,000); and (ii) Greengold Leasing shall lease back the Leased Assets to the Lessee for a lease period of 60 months at a rate of 6.35% per annum. For details, please refer to the announcements of the Company dated 23 March 2023.

## B. Termination of the Xiamen acquisition

On 2 December 2021, Shenzhen New China Water, an indirect non-wholly-owned subsidiary of the Company (as purchaser), entered into the Xiamen Equity Transfer Agreement with Beikong Shifang (Shandong) Environmental Energy Group Limited* (北控十方(山東)環保能源集團有限公司) (the "**Beikong Shifang**") and Xiamen Tongjie Environmental Protection Technology Limited* (廈門通潔環保科技有限公司) (the "**Xiamen Tongjie**") (as vendors) and Xiamen Shifang Yuantong Bioenergy Limited* (廈門十方圓通生物能源有限公司) (the "**Xiamen Shifang**") (as target company), pursuant to which Shenzhen New China Water has agreed to purchase, and (i) Beikong Shifang has agreed to sell, the Xiamen Sale Capital A, representing 55% equity interests in Xiamen Shifang; and (ii) Xiamen Tongjie has agreed to sell, the Xiamen Sale Capital B, representing 45% equity interests in Xiamen Shifang, for a total consideration of RMB15,000,000 (equivalent to approximately HK$18,359,000). Shenzhen New China Water has paid the Xiamen Deposit in the sum of RMB6,000,000 (equivalent to approximately HK$7,343,000) to Beikong Shifang and Xiamen Tongjie pursuant to the terms of the Xiamen Equity Transfer Agreement. Pursuant to the terms of the Xiamen Equity Transfer Agreement, Shenzhen New China Water shall pay Beikong Shifang and Xiamen Tongjie the Xiamen Second Installment upon completion of the Xiamen Payment Conditions, which among others include a written document issued by Xiamen Urban Appearance Environment Health Management Office permitting the transfer of the Xiamen Sale Capital to Shenzhen New China Water or agreeing to the transactions contemplated thereunder having been obtained by Beikong Shifang and Xiamen Tongjie (the "**Xiamen Regulatory Approval**"). The Purchaser has recently been informed by Beikong Shifang and Xiamen Tongjie that the Xiamen Regulatory Approval will not be given by Xiamen Urban Appearance Environment Health Management Office. On 16 February 2022, Shenzhen New China Water, Beikong Shifang, Xiamen Tongjie and Xiamen Shifang have entered into a termination agreement (the "**Xiamen Termination Agreement**"), pursuant to which the parties have agreed to terminate the Xiamen Equity Transfer Agreement with immediate effect. In February 2022, Beikong Shifang and Xiamen Tongjie had refunded the deposit in full to Shenzhen New China Water. For details, please refer to the announcements of the Company dated 2 December 2021 and 16 February 2022.

### C. Acquisition of equipment

i. On 6 July 2022, China Water (Nanjing) Renewable Resources Investment Company Limited* (新中水(南京)再生資源投資有限公司) (the "**New China Water Nanjing**"), an indirect non-wholly-owned subsidiary of the Company (the "**Purchaser**"), entered into the equipment purchase agreement I with Beijing Aijian Tongyi Economic and Trade Development Co., Ltd* (北京愛建同益經貿發展有限責任公司) (the "**Vendor I**") to purchase the fifteen (15) set of biogas generators for a total consideration of RMB69 million (equivalent to approximately HK$81.25 million) for the operation of the Group's principal business in renewable energy business segment. For details, please refer to the announcement of the Company dated 6 July 2022.

ii. On 8 July 2022, the Purchaser entered into the equipment purchase agreement II with Beijing Yisheng Environmental Technology Limited* (北京宜升環保能源科技有限公司) (the "**Vendor II**"), to purchase the fourteen (14) set of biogas generators for a total consideration of RMB64.4 million (equivalent to approximately HK$75.84 million) for the operation of the Group's principal business in renewable energy business segment. For details, please refer to the announcement of the Company dated 8 July 2022.

### D. Disposal of 60% Equity Interests in Linyi Fenghuang

On 11 October 2022, China Water Industry (HK) Limited (the "**China Water (HK)**"), being an indirect wholly-owned subsidiary of the Company, and 奧德集團有限公司 (Aode Group Company Limited#) (the "**Aode Group**"), entered into the Equity Transfer Agreement, pursuant to which China Water (HK) has conditionally agreed to sell, and the Aode Group has conditionally agreed to purchase 60% equity interests in the Linyi Fenghuang, for a total consideration of RMB53,000,000 (equivalent to approximately HK$58,183,000). The disposal was completed in October 2022. Thereafter, Linyi Fenghuang ceased be a subsidiary of the Company and the financial information ceased to consolidate into the consolidated financial statements of the Remaining Group. For details, please refer to the announcement of the Company dated 11 October 2022.

### E. Capital Injection Into Boli County Zhongshui Wanlong Renewable Energy Technology Co., Ltd.

On 5 January 2023, New China Water Nanjing (新中水南京), entered into the Capital Injection Agreement with Beijing Zhenhui Energy Saving and Environmental Protection Technology Co., Ltd.# (北京振徽節能環保科技有限公司), (the "**Beijing Zhenhui**") and Boli County Zhongshui Wanlong Renewable Energy Technology Co., Ltd.# (勃利縣中水皖龍可再生能源科技有限公司) (the "**Target Company**"). Pursuant to the Capital Injection Agreement, New China Water Nanjing shall contribute RMB18,000,000 (equivalent to approximately HK$20,540,000) to the registered capital of the Target Company (the "**Capital Injection**"). Upon completion of the Capital Injection, (i) the registered capital of the Target Company will be increased from RMB12,000,000 (equivalent to approximately HK$13,693,000) to RMB30,000,000 (equivalent to approximately HK$34,233,000), and (ii) New China Water Nanjing and Beijing Zhenhui will hold as to 60% and 40% equity interest in the Target Company, respectively. Up to the date of this report, the Capital Injection was yet to be completed as the terms and conditions had not been fulfilled. For details, please refer to the announcement of the Company dated 5 January 2023.

### F. Acquisition of 3.872% Equity Interest in New China Water Nanjing

On 1 March 2023, China Water (HK), an indirect wholly-owned subsidiary of the Company, and the Company (collectively, as **Purchasers**) entered into the Equity Transfer Agreement with Guangdong Yuecai Small and Medium-sized Enterprises Equity Investment Fund Partnership (Limited Partnership)# (廣東粵財中小企業股權投資基金合夥企業(有限合夥)) and Zhuhai Hengqin Yixingbanyue Investment Partnership (Limited Partnership)# (珠海橫琴依星伴月投資合夥企業(有限合夥)), (collectively, as **Vendors**), pursuant to which the Vendors have agreed to sell to the Purchasers, and the Purchasers have agreed to purchase from the Vendors, the Aggregate Sale Capital at the Total Consideration of approximately RMB81,340,955 (equivalent to approximately HK$92,574,000), which is determined based on the calculation of the repurchase price pursuant to the terms of the Investment Agreements. Upon completion of the Acquisition, New China Water Nanjing will become an indirect wholly-owned subsidiary of the Company. Up to the date of this report, the acquisition has not been completed. The first instalment payment representing 30% of the Total Consideration was paid in March 2023. For details, please refer to the announcement of the Company dated 1 March 2023.

### G. The rights issue on the basis of one (1) rights share for every two (2) existing shares

Details of placing of new shares are set out in the section of CAPITAL STRUCTURE, CAPITAL FUND RAISING AND USE OF PROCEEDS.

### H. Placing of new shares under general mandate

Details of placing of new shares are set out in the section of CAPITAL STRUCTURE, CAPITAL FUND RAISING AND USE OF PROCEEDS.

### I. Amended and restated memorandum and articles of association

On 24 June 2022, the Company has amended the existing memorandum of association of the Company (the "**Memorandum of Association**") and articles of association (the "**Articles of Association**") of the Company at the annual general meeting for the purposes of bringing the existing Memorandum of Association and Articles of Association in line with, among other things, the latest legal and regulatory requirements, including the amendments made to the applicable laws of the Cayman Islands and Appendix 3 to the Listing Rules on The Stock Exchange which took effect on 1 January 2022 and to incorporate certain housekeeping amendments. The amended and restated Memorandum and Articles of Association had become effective on 24 June 2022. For details, please refer to (i) the announcements dated 13 May 2022 and 24 June 2022 and (ii) the circular dated 24 May 2022.

### J. Connected transaction for the entering into tenancy agreement

On 26 August 2022, South Top Investment Limited, a wholly-owned subsidiary of the Company as the tenant, entered into a tenancy agreement (the "**Tenancy Agreement**") with Star Wing International Limited (the "**Landlord**") for leasing Office H, 8/F, Kingston International Centre, 19 Wang Chiu Road, Kowloon Bay, Hong Kong (the "**Premise**"), for a term of three years with commencement of 2 months rent free renovation period from 20 July 2022. The Premises upon completion of renovation will be used as the principal office of the Group in Hong Kong. The ultimate beneficial owner of the Landlord is Mrs. Chu Yuet Wah, a substantial shareholder of the Company, hence the Landlord is a connected person of the Company, the entry into the Tenancy Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules. In accordance with HKFRS 16 "Leases", the Company will recognise a right-of-use asset on its consolidated statement of financial position in connection with the lease of the Premises under the Tenancy agreement. Accordingly, the lease transaction under the Tenancy Agreement will be regarded as an acquisition of asset by the Company for the purpose of the Listing Rules. The audited aggregated value of the right-of-use asset to be recognised by the Company under the terms of the Tenancy agreement amounted to approximately HK$2.58 million, which is the present value of total rent payable calculated in accordance with HKFRS 16. As the audited aggregated value of the right-of-use asset below HK$3,000,000, it was fully exempt under 14A.76(1)(c) of the Listing Rules.

## CONTINGENT LIABILITIES

As at 31 December 2022, the Remaining Group had contingent liabilities in respect of guarantees in the mortgage facilities for certain purchasers of the Remaining Group's property in the amount of HK$3.26 million (the Remaining Group as at 31 December 2021: Nil).

## PLEDGE OF ASSETS

The Remaining Group's obligations under finance leases, bank loans and other loans of HK$312.58 million in total as at 31 December 2022 (the Remaining Group as at 31 December 2021: HK$384.54 million) were secured by charges over:

(i) property, plant and equipment in which their carrying amount was HK$185.34 million (the Remaining Group as at 31 December 2021: HK$176.26 million);

(ii) right-of-use assets in which their carrying amount was HK$306.39 million (the Remaining Group as at 31 December 2021: HK$445.05 million); and

(iii) contractual rights to receive revenue generated by certain of our subsidiaries.

## KEY RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospects may be affected by several risks and uncertainties directly or indirectly pertaining to our Group's businesses. The following are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below that are not known to our Group or that may not be material now but could turn out to be material in the future:

| Risk | Description | Key Risk Mitigations | Changes |
|---|---|---|---|
| Foreign exchange rates risk | The Group's assets, borrowings, and major transactions are mainly denominated in Renminbi. The Group mainly settles business expenses and receives operating income in mainland China in Renminbi. The Group also remits HK dollars to PRC and converts them into Renminbi for the acquisition of projects or capital injection to establish investment companies. As the Group's financial statements are presented in HK dollars, any appreciation or depreciation of HK dollars against Renminbi will affect the Group's financial position. | — Management actively monitors the fluctuation in exchange rates and the Group's exposure to foreign exchange rate risk.<br>— Perform sensitivity analysis to quantify the foreign exchange rate risk.<br>— Management regularly reviews what necessary actions (such as hedging) should be taken. | Increased |
| Equity price risk | The Group is exposed to equity price risk through its investments in listed equity securities and funds. Unfavorable movement in equity prices could result in book or actual investment losses for the Group. | — The Board actively reviews and monitors the investment portfolio and takes necessary action to limit the potential losses to an acceptable level.<br>— Establish investment policies that clearly set out control limits and approval procedures.<br>— Obtain Board approval for investment decisions.<br>— Establish an investment department to perform studies and analysis on existing and potential investments.<br>— Reduce the size of the investment portfolio to minimize the losses and focus capital on operations. | Decreased |

| Risk | Description | Key Risk Mitigations | Changes |
|---|---|---|---|
| Liquidity risk | Liquidity risk is the potential that our Group will be unable to meet its financial obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. | — Actively monitors cash flows and maintains an adequate level of cash and cash equivalents to ensure the ability to finance the Group's operations and reduce the effects of fluctuations in cash flows.<br>— Disposes of subsidiaries that are not profitable or not as profitable as expected.<br>— Prepares regularly cash flow forecast for Management to manage the liquidity of each business unit. | Unchanged |
| Operational and pricing risk | Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. Additionally, as the Group has only a limited ability to change/ renegotiate wastewater treatment or water supply fees, if the relevant local government authority rejects the Group's applications to increase the tariffs to compensate for the increase in actual costs, the Group might suffer a loss or decrease in profitability. | — Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.<br>— Key functions in our Group are guided by their standard operating procedures, limits of authority, and reporting framework.<br>— Our management will identify and assess key operational exposures regularly so that appropriate risk responses could be taken.<br>— A monthly management meeting is held with each business unit's head.<br>— A monthly report is prepared and submitted to Management to review the operational status of each business unit. | Unchanged |

| Risk | Description | Key Risk Mitigations | Changes |
|---|---|---|---|
| Investment risk | Investment risk can be defined as the likelihood of losses occurring relative to the expected return on any particular investment. A key concern of the investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision-making process. | — A site visit and detailed analysis will be performed to ensure that we only invest in high quality projects.<br>— An Investment Committee has been set up to review and approve investments in projects.<br>— Feasibility assessments (including financial due diligence) are performed and submitted to the Investment Committee for review, and eventually reviewed by the Board.<br>— Regular updates on the progress of our Group's investments will be submitted to the Board. | Increased |
| Manpower and retention risk | Our Group may face the risk of not being able to attract and retain key personnel and talent with the appropriate and required skills, experience and competence that would meet the business objectives of our Group. | — Encourage internal promotion to attract and retain talents.<br>— Provide an attractive remuneration package (including performance bonuses) to suitable candidates and personnel.<br>— Create a positive and work-life balance working environment to avoid staff dissatisfaction.<br>— Regularly review staff benefit packages and compare them to the market.<br>— Establish a clear career path, backup staff plan, and rotate staff regularly, if possible, to reduce the impact of staff departure. | Increased |

# MANAGEMENT DISCUSSION AND ANALYSIS

| Risk | Description | Key Risk Mitigations | Changes |
|---|---|---|---|
| Legal and regulatory compliance risk | Our business success and operations could be impacted by changes in respective government laws and regulations in the PRC. Any failure to anticipate trends in regulatory changes or comply with relevant requirements may result in non-compliance with local laws or regulations, leading to not only financial loss but also reputational damage to the Group. | — Actively monitors and pays close attention to the relevant regulatory and legislative developments in the markets in which we operate.<br>— Consults with regulators of those markets on changes that could impact our businesses.<br>— Provide training to staff during new staff orientation.<br>— Provide ongoing training to staff to keep them alert to the latest regulatory requirements. | Unchanged |
| Expansion risk | The Group is exposed to expansion risk through its potential expansion plan to renewable energy and biomass energy. As expansion into a new market requires substantial capital investment and a certain return period, the Group might face uncertainties in achieving its expected return on investment. | — Conduct market research for the new markets in renewable energy and biomass energy.<br>— Develop a detailed business plan with projections and contingency plans.<br>— Explore different sources of funding to manage the potential liquidity risks during expansion. | Increased |

### No material change

Save as disclosed in this report, during 31 December 2022, there has been no material change in the Remaining Group's financial position or business since the publication of the latest annual report of the Company for the year ended 31 December 2021.

## BUSINESS PROSPECTS

The outlook and future plans of the Group are set out in the Chairman's Statement on pages 9.

## EMPLOYEES

As at 31 December 2022, excluding jointly controlled entities and associates, the Remaining Group had 1,010 employees (As at 31 December 2021 of the Remaining Group: 996), of which 16 are Hong Kong employees (As at 31 December 2021 of the Remaining Group: 13). During the year, total employee benefit expenses, including directors' emoluments and provident funds, was HK$182.79 million (FY2021 of the Remaining Group: HK$194.53 million). The drop in staff costs was the salary increment for 2019 and 2020 approved and paid in 2021, but no such payments were made in FY2022. Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary and a year-end discretionary bonus, which are determined with reference to the Remaining Group's operating results, market conditions and individual performance. Remuneration packages to Directors and senior management are normally reviewed as on annual basis by the Remuneration Committee. During the year under review, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme, and a similar benefit scheme is offered to employees in Mainland China. In addition, the Remaining Group encourage employees' participation in continuing training programmes, seminars and e-learning through which their career, knowledge and technical skills can be enhanced with the development of individual potentials.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Zhu Yongjun ("Mr. Zhu")**, aged 55, was appointed as an executive Director of the Company in August 2019. Mr. Zhu has been appointed as the Chairman, an Authorised Representative, a member of the Remuneration Committee, the chairman of both of the Nomination Committee and the Investment Committee in 8 February 2021. He is the director of various subsidiaries of the Company. He obtained his undergraduate from Hunan University in 1989 and a master degree of business administration in Peking University in the People's Republic of China in 2005. With effect from 9 September 2022, Mr. Zhu was appointed as a non-executive Director, a member of the Nomination Committee and a member of the Remuneration Committee of the Affluent Partners Holdings Limited (Stock code: 1466) which is listed on the Main Board of the Stock Exchange. Currently, Mr. Zhu is the chairman of the board and an executive director of the New Concepts Holdings Limited (Stock code: 2221) which is listed on the Main Board of the Stock Exchange. From February 2015 to 6 March 2020, Mr. Zhu was the chairman of the board of Josab Water Solutions AB, a company incorporated under the laws of Sweden, whose shares are listed on the Spotlight Stock Market, a stock exchange in Sweden. Mr. Zhu started his environmental protection career in 2001. From July 2007 to February 2009, Mr. Zhu was an executive director of Softpower International Limited (Stock code: 380) which is listed on the Main Board of the Stock Exchange. From May 2008 to March 2013, Mr. Zhu was an executive Director of EverChina Int'l Holdings Company Limited (Stock Code: 202) which is listed on the Main Board of the Stock Exchange. From January 2009 to May 2015, he was also the chairman of the board of Heilongjiang Interchina Water Treatment Company Limited (Stock Code: 600187) which is listed on the Shanghai Stock Exchange.

**Mr. Hu Siyun ("Mr. Hu")**, aged 45, has been appointed as an executive Director and a member of Investment Committee in July 2021 and September 2021 respectively. He is the director of various subsidiaries of the Company. Mr. Hu holds a master degree in Urban Design from University of Melbourne in Australia and a bachelor degree in Architecture from Guangzhou University in the People's Republic of China. Currently, Mr. Hu is the chairman of the board of LiZen Asset Management Limited, being a corporation licensed to carry out Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**"). From July 2018 to January 2019, Mr. Hu was a vice president of Co-Prosperity Management Limited, being a subsidiary of Asia Television Holdings Limited (stock code: 707), the issued shares of which are listed on the Main Board of the Stock Exchange. From September 2011 to June 2018, Mr. Hu served as the general manager of Huizhou City Honghu Real Estate Development Co., Ltd.*（惠州市鴻鵠房地產開發有限公司）. From June 2006 to August 2011, Mr. Hu was an executive associate director of the Architecture Design and Research Institute of Guangdong University of Technology (Huizhou Design Institute). Mr. Hu has over 10 years of experience in financial investment, capital operation as well as the real estate markets and capital markets both domestically and globally. Furthermore, he has participated in several mergers, acquisitions and restructuring projects, both domestically and globally. As at the date of this report, Mr. Hu was interested in 27,936,000 shares of the Company, representing approximately 0.97% of the issued share capital of the Company.

**Ms. Chu Yin Yin, Georgiana ("Ms. Chu")**, aged 52, was appointed as an executive Director and Company Secretary of the Company as well as Financial Controller of the Group in October 2006, November 2006 and November 2019 respectively. Ms. Chu has been appointed as a member of Investment Committee in September 2021. She is the director of various subsidiaries of the Company. Ms. Chu holds a Bachelor's Degree of Accounting and a Master's Degree of Corporate Governance. She is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of the Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Ms. Chu is a fellow member of both of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). Ms. Chu has over 20 years' extensive experience by working in an international audit firm and other listed companies. On 28 November 2018, Ms. Chu has resigned as an independent non-executive Director (the "**INED**") and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of Bisu Technology Group International Limited (stock code:1372). On 4 April 2019, Ms. Chu has resigned as an INED, a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of Sino Golf Holdings Limited (stock code: 361). Both of the aforesaid companies are listed on the Main Board of the Stock Exchange. As at the date of this report, Ms. Chu was interested in 1,112,000 shares of the Company, representing approximately 0.04% of the issued share capital of the Company.

**Ms. Deng Xiao Ting ("Ms. Deng")**, aged 48, was appointed as an executive Director of the Company in July 2012. She is the director of various subsidiaries of the Company. Ms. Deng has once served as a national civil servant at Huizhou Public Security Bureau. Ms. Deng graduated from Jinan University, majoring in Accounting and subsequently graduated from the Party School of the Central Committee of C.P.C. with a major in law. Ms. Deng is the sister of Mr. Deng Jun Jie ("**Mr. Deng**"), a substantial shareholder of the Company. As at the date of this report, Ms. Deng was interested in 3,000,000 shares of the Company, representing approximately 0.10% of the issued share capital of the Company.

### Independent non-executive Directors

**Mr. Wong Siu Keung, Joe ("Mr. Wong")**, aged 58, was appointed as an INED of the Company in October 2012. Mr. Wong is a Chairman of both of the Audit Committee and Remuneration Committee and a member of the Nomination Committee. With effect from 14 January 2022, Mr. Wong was appointed as an INED, the Chairman of the Nomination Committee, a member of both of the Audit Committee and the Remuneration Committee of the Affluent Partners Holdings Limited (Stock code: 1466) which is listed on the Main Board of the Stock Exchange. With effect from 25 March 2022, Mr. Wong was appointed as an executive Director of the DeTai New Energy Group Limited (the "**DeTai New Energy**")(Stock code: 559) which is listed on the Main Board of the Stock Exchange. Mr. Wong was appointed as the Company Secretary, the Authorised Representative and the Chief Financial Officer of the DeTai New Energy with effect from 10 January 2022. Mr. Wong is currently an INED of Interactive Entertainment China Cultural Technology Investments Limited (stock code: 8081) and Worldgate Global Logistics Ltd (stock code: 8292), both companies are listed on the GEM of The Stock Exchange. Mr. Wong holds a Degree of Master of Arts in International Accounting from City University of Hong Kong and a Master's Degree of Corporate Governance from Hong Kong Polytechnic University. He is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Wong has extensive experience in taxation, accounting, financing, audit field and public listed companies for many years.

**Ms. Qiu Na ("Ms. Qiu")**, aged 44, was appointed as an INED of the Company in September 2016. Ms. Qiu is a member of the Audit Committee. Graduated from the Information Institute of Defense Studies, NDU, PLA*（中國人民解放軍國防信息學院）in 2012, majoring in accountancy. Ms. Qiu is currently a general manager of Huizhou City Huixinfu Property Company Limited. She has extensive experience in human resources management, accounting, corporate administration and property development.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Lam Cheung Shing, Richard ("Mr. Lam")**, aged 64, was appointed as an INED of the Company in August 2019. Mr. Lam has been appointed as a member of the Audit Committee, the Nomination Committee and the Remuneration Committee in February 2021. He was admitted to the master degree of business administration in the Chinese University of Hong Kong in 2006. He is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Currently, Mr. Lam is an executive Director, the deputy chairman and chief executive officer of the EverChina. In August 2001, Mr. Lam was appointed as an executive Director and deputy chief executive officer of the EverChina and was designated as the chairman of the EverChina during the period from May 2009 to June 2009. Mr. Lam spent over ten years in PricewaterhouseCoopers, an international accounting firm and promoted to a senior audit manager, and is equipped with extensive experience in accountancy, taxation and corporate finance. Prior to joining the EverChina, Mr. Lam held senior positions in a number of listed companies in Hong Kong, including Sun Hung Kai & Co., Limited, Kingsway SW Asset Management Limited and U-Cyber Technology Holdings Limited. Other than the directorship in the EverChina, currently, Mr. Lam is also an INED of Lajin Entertainment Network Group Limited (Stock code: 8172) which is listed on the GEM Board of the Stock Exchange. Besides, Mr. Lam was appointed as an INED of Eagle Legend Asia Limited (Stock code: 936) during the period from May 2013 to December 2014 and an executive Director of Kai Yuan Holdings Limited (Stock code: 1215) during the period from December 2001 to July 2008 and re-designated as a non-executive Director during the period from July 2008 to November 2008, all of which are companies whose shares are listed on the Main Board of the Stock Exchange. Mr. Lam was appointed as an executive Director of China Pipe Group Limited (Stock code: 380), which is listed on the Main Board of the Stock Exchange, during the period from June 2007 to February 2009.

## SENIOR MANAGEMENT OF THE GROUP

**Mr. Pan Yimin ("Mr. Pan")**, aged 46, graduated from Jiangxi University of Finance and Economics with a bachelor's degree in Economics. He was appointed as the Vice President of the Company in March 2021 and is in charge of the financial department, general department and risk control department of the Company. In September 2021, he was appointed as a member of the Investment Committee of the Company. Mr. Pan currently is an executive Director of the New Concept Holdings Limited (the "**New Concept**") (Stock code: 2221) which is listed on the Main Board of the Stock Exchange. He was the president of Tianjin Dongfang Mingrui Investment Management Co., Ltd* since 2013 prior to joining to the Company. Mr. Pan was the Vice President of Interchina (Tianjin) Water Treatment Co., Ltd.* from April 2011 to March 2013, and a deputy manager of Heilongjiang Interchina Water Treatment from April 2009 to March 2011. Before joining the Company, Mr. Pan worked at a number of reputable domestic investment companies and water companies. For over a decade in the industry, Mr. Pan possesses rich experience in corporate management, financial management, and project and financial investments.

**Mr. Liu Wei Qing ("Mr. Liu")**, aged 60, graduated from Jiangxi University of Science and Technology (formerly known as Jiangxi Institute of Metallurgy) and holds a bachelor's degree in Engineering and a university lecturer certificate. He joined the Company in April 2012 and was appointed as a Vice President of the Company in May 2017. Currently, Mr. Liu is a vice chairman of New China Water (Nanjing) Renewable Resources Investment Company Limited*（新中水（南京）再生資源投資有限公司）, a vice chairman and director of Shenzhen City New China Water Environmental Technology Limited*（深圳市新中水環保科技有限公司）and a director of Shenzhen City Li Sai Industrial Development Limited*（深圳市利賽實業發展有限公司）, all these companies are the subsidiaries of the Group. Mr. Liu is a member of Investment Committee. He has extensive management work experience in information technology and domestic urban water supply industry, daily waste treatment, and the comprehensive utilization of landfill gas of the landfill site.

**Mr. Tang Po Shing ("Mr. Tang")**, aged 30, graduated from School of Economics and Management of Wuhan University in July 2015 with a bachelor's degree in marketing. He obtained a master's degree in entrepreneurship and innovation management from Loughborough University in October 2017. Mr. Tang joined the Group in November 2017. He previously served as an assistant to the general manager of Shenzhen City Li Sai Industrial Development Limited*（深圳市利賽實業發展有限公司）, the deputy general manager of the Investment and Financing Department of the Company, the vice chairman of New China Water (Nanjing) Renewable Resources Investment Company Limited*（新中水（南京）再生資源投資有限公司）. Mr. Tang was appointed as the Vice President of Company in January 2019 and currently act as the chairman of New China Water (Nanjing) Renewable Resources Investment Company Limited（新中水（南京）再生資源投資有限公司）and a member of Investment Committee. Mr. Tang is the son of Mr. Deng, a substantial shareholder of the Company and the nephew of Ms. Deng, an executive Director of the Company.

**Mr. Zhong Wei Guang ("Mr. Zhong")**, aged 55, was appointed as the Vice President of Company in May 2022. He is a member of the Investment Committee and a director of Swan (Huizhou) Investment Company Limited, a subsidiary of the Group. Currently, he serves as a general manager and deputy general manager in Huizhou Junfeng Investments Limited*（惠州俊峰投資有限公司） and Huizhou City Huixinfu Investment Co., Limited* （惠州市惠新福投資有限公司） respectively. Mr. Zhong was a committee member of 9th, 10th and 11th session of the Huizhou City Political Consultative Conference. He has over 20 years of experience in corporate management in PRC.

**Mr. Zhang Yan Qing ("Mr. Zhang")**, aged 54, was appointed as the Vice President of Company in May 2022, and is the person-in-charge of the Group's water business segment. Mr. Zhang is also the Chairman of Yichun Water Industry Group Co., Ltd*. Prior to joining the Company, Mr. Zhang worked for a number of well-known investment companies and water companies in the PRC. With over 20 years of experience in the industry, Mr. Zhang has extensive financial expertise and corporate management experience.

# CORPORATE GOVERNANCE REPORT

## OVERVIEW

The board (the "**Board**") of directors believes that good corporate governance enhances credibility and improves shareholders' and other stakeholders' interests. Maintaining a good, solid, and sensible framework of corporate governance is one of the Company's prime tasks.

The Company is committed to achieving high standards of corporate governance. An internal corporate governance policy was adopted by the Board aiming at providing greater transparency, quality of disclosure as well as more effective risk and internal control. The execution and enforcement of the Company's corporate governance system is monitored by the Board with regular assessments and procedures are in place to enable the shareholders to evaluate how the principles of corporate governance have been applied. The Company believes that its commitment to high-standard practices will translate into long-term value and ultimately maximize returns to shareholders. The Board continues to monitor and review the Company's corporate governance practices to ensure compliance.

For the year ended 31 December 2022, the Company has complied with the code provisions of Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), save for the deviation of code provision C.2.1 in Part 2 of Appendix 14 to the Listing Rules.

The Board develops a corporate culture with a commitment to withhold integrity and ethical practices and promotes the value from the top within the Group and reinforces such strategy across all departments of the Group.

### A. Directors

*A.1 The Board*

- The overall management of the Company's business is vested in the Board. The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The Directors have to take decisions objectively in the interests of the Company. The Company has held 43 Board meetings in the year of 2022. Directors have been consulted to advice the agenda of the Board meeting. For the board regular meeting, at least 14 days notice has been given to the Directors.

- Directors may attend meetings in person or through electronic facilities in accordance with the minutes of the Board. Both of the Board meeting minutes and the Board Committees meeting minutes are recorded in sufficient details and kept by the company secretary for inspection at any reasonable time on reasonable notice by any Director.

- Directors were supplied with adequate and relevant information in a timely manner to enable them forming decision in the relevant meetings. Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company. Agreed procedures are in place providing to the member of the Board and/or committee to seek independent professional advice at the Company's expenses to assist them to discharge their duties.

- Where a substantial shareholder or a Director had a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, a Board meeting was held by physical board meeting rather than a written resolution with the presence of Independent Non-executive Directors ("**INEDs**") who have no material interest in the transaction.

- There was in place a Directors' and Officers' Liabilities Insurance cover in respect of legal actions against Directors and senior management arising out of corporate activities.

- The Board holds meetings on a regular basis and will meet on other occasions when a board level decision on a particular matter is required. The individual attendance records of each Director including INEDs at the meetings of the Board, Remuneration Committee, Audit Committee, Nomination Committee, Investment Committee and annual general meeting ("**AGM**") during the year ended 31 December 2022 are set out below:

### Attendance Records

| | Number of meetings attended/held | | | | | |
|---|---|---|---|---|---|---|
| Name of Directors | Board | Remuneration Committee | Audit Committee | Nomination Committee | Investment Committee | AGM |
| **Executives Directors:** | | | | | | |
| Mr. Zhu Yongjun ("**Mr. Zhu**") *(Chairman)* | 37/43 | 2/2 | N/A | 2/2 | 3/3 | 1/1 |
| Mr. Hu Siyun ("**Mr. Hu**") | 41/43 | N/A | N/A | N/A | 3/3 | 1/1 |
| Ms. Deng Xiao Ting ("**Ms. Deng**") | 43/43 | N/A | N/A | N/A | N/A | 1/1 |
| Ms. Chu Yin Yin, Georgiana ("**Ms. Chu**") | 42/43 | N/A | N/A | N/A | 3/3 | 1/1 |
| **Independent Non-executive Directors:** | | | | | | |
| Mr. Wong Siu Keung, Joe ("**Mr. Wong**") | 43/43 | 2/2 | 3/3 | 2/2 | N/A | 1/1 |
| Ms. Qiu Na ("**Ms. Qiu**") | 43/43 | N/A | 3/3 | N/A | N/A | 1/1 |
| Mr. Lam Cheung Shing, Richard ("**Mr. Richard Lam**") | 41/43 | 2/2 | 3/3 | 2/2 | N/A | 1/1 |

N/A: not applicable

*A.2. Chairman and Chief Executive Officer*

- Mr. Zhu, an executive Director of the Company, was appointed as the Chairman of Company on 8 February 2021. Since such arrangements, the role of Chairman is performed by Mr. Zhu and the role of CEO is performed by different members of the Board. As all major decisions are made in consultation with the members of the Board, including the relevant Board Committees, and three independent non-executive Directors (the "**INEDs**") on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. In view of the above, the Company has failed to comply with code provision C.2.1 of the CG Code requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. The Company has made endeavors however more time is required to identify suitable candidate to be the CEO in order to comply with the Code.

- The Chairman provides leadership and focus on his role for the Group's overall strategy planning, analysis of market trend and establishment of the Group's future development direction. Also, he is responsible for the effective functioning of the Board in accordance with good corporate governance practice, and encourages and facilitates active contribution of directors in board activities and constructive relations between executive and independent non-executive Directors. With the support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at board meeting.

- The Chairman, with the assistance of the Company Secretary and other relevant departmental heads, reviews from time to time various procedural aspects of the Company in order to ensure that good corporate governance practices and procedures are well in place.

- The Chairman believes that it is in the Directors' own best interest to voice whatever concerns they may have as each Director has the same general legal responsibilities to the Company as any other Director, regardless of whether they are executive or non-executive. As such, in each Board meeting, the Chairman nurtures an open and uninhibited environment where other Directors with different views are free to express their own opinions.

- The Chairman has held one private meeting with INEDs to discuss major events or issues which incurred in 2022 and the Company's business plan to be developed in 2023. The Board believed that INEDs could through this private meeting to voice out their concerns on financial aspects after discussing major events or issues and provide constructive advice on the direction of Group's future development.

- When compiling board papers, the Chairman works closely with the Company Secretary to ensure that comprehensive, adequate, complete, reliable and timely information are presently to the Board to enable them to set strategy, monitor progress towards meeting the Group's objectives and to conduct regular reviews of financial performance, risk management and other business issues.

- Following Mr. Lin Yue Hui resigned as the CEO in February 2021, the Company does not have an officer with the title "Chief Executive Officer". The overall responsibility of supervising and ensuring that the Group functions in line with the order of the Board in terms of day-to-day operations and execution is vested in the Board itself.

- The executive Directors and senior management also work closely with the Company Secretary to ensure that information necessary to keep Directors updated of the latest situation of the Company and for them to make informed decisions are presented to the Board in a timely manner.

*A.3 Board Composition*

- Up to the date of this report, the Board comprises a total of seven members including four executive Directors, and three INEDs, as set out on page 63 of this annual report. Members of the Board have different professional and relevant industry experiences and background so as to bring in valuable contributions and advices for the development of the Group's business.

- Up to the date of this report, the Board comprised three INEDs, and two of the INEDs has possessed professional qualifications in accounting and financing field. Mr. Wong and Mr. Lam are certified public accountants.

- The Company has received written confirmation from each INED of their independence to the Group. The Group considered all of INEDs meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

- The Company has maintained an updated list of its directors identifying their role and function on its website and on the Stock Exchange's website.

- Ms. Deng is an executive Director of the Company, she is the sister of Mr. Deng Jun Jie, a shareholder of the Company.

- Save as disclosed above, to the best knowledge of the Company, there is no financial, business or family relationship among the members of the Board.

- The names of the directors and their respective biographies are set out on pages 52 to 55 of this annual report.

*A.4 Appointment, re-election and removal*

The Company has on 19 January 2012 established Nomination Committee, further details of which are set out in section of A.5 Nomination Committee. All Directors including INEDs have signed letter of appointments with the Company. In addition, the shareholders have right to nominate any person to become a director of the Company in accordance with the Articles of Association ("**A.A.**") of the Company, the procedure for election of directors was published on the Company's website.

- The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically follow the A.A. which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an additional to the Board. The Directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deems fit. The Nomination Committee has considered the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position.

- The Company's A.A. requires for those Directors appointed to fill a casual vacancy to hold office only until the first general meeting after their appointment and be subject to re-election at such meeting. The Company's A.A. also requires at every AGM, one-third of the Directors for the time being or, if their number is not a multiple of three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation provided that every Directors, including those appointed for a specific term shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election to fill a casual vacancy until the next general meeting or the next AGM.

- All INEDs of the Company were not appointed for a specific term but they are subject to retirement by rotation at least once every three years and re-election at AGM of the Company in line with the Company's A.A..

- Any further appointment of an INED who has served on the Board for more than nine years will be subject to a separate resolution to be approved by shareholders. Mr. Wong has served as an INED for more than nine years. During his years of appointment, Mr. Wong has demonstrated his ability, integrity and experience to provide an independent view to the Company's matters. He has given an annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules and has been assessed by the Nomination Committee to be independent. The Board is of the view that Mr. Wong is able to continue to fulfil his role as required and his long service would not affect his exercise of independent judgment.

- Independence of Independent Non-Executive Directors

  The INEDs play a significant role in the Board as they bring an impartial view on the Group's strategies, performance and control, as well as ensuring that the interests of all shareholders of the Company are considered. All INEDs possess appropriate academic, professional qualifications or related financial management experience.

  In addition to the annual meeting among the Chairman and the INEDs only as well as the annual confirmation of independence pursuant to the Rule 3.13 of the Listing Rules as noted above, the Nomination Committee and the Board are committed to review and assess the Directors' independence annually in order to ensure that independent views and input of the INEDs are made available to the Board. Factors taken into account in such independence review include, and are not limited to, the following:

  (1) required character, integrity, perspectives, skills, expertise and experience to fulfill their roles;

  (2) time commitment and attention to the Group's affairs;

  (3) declaration of conflicts of interest (if any) in their roles as INEDs;

  (4) to assess the independence of INEDs; and

  (5) no involvement in the daily management of the Group nor in any relationship or circumstances which would affect the exercise of their independent judgement; and

(6) further reappointment of an INED (including any long-serving INED, where applicable) is subject to a separate resolution to be approved by the shareholders.

*A.5 Nomination Committee*

The Nomination Committee comprised an executive Director, namely Mr. Zhu (Committee Chairman), two INEDs, namely Mr. Wong and Mr. Lam. The terms of reference of the Nomination Committee is available on the Company's website and on the Stock Exchange's website.

- The main duties of the Nomination Committee include the following:

(a) to review the policy concerning diversity of Board members (the "**Board Diversity Policy**") and the structure, size and composition (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, and disclose such policy, including any measurable objectives that the Nomination Committee has set for implementing the policy and progress on achieving these objectives, in the Company's corporate governance report;

(b) to develop and maintain a policy for nomination of Board members (the "**Nomination Policy**") which includes the nomination procedures and the process and criteria adopted by the Nomination Committee to identify, select and recommend candidates for directorship during the year, and to review periodically and disclose the policy in the Company's corporate governance report;

(c) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships under the Nomination Policy and Board Diversity Policy;

(d) to assess the independence of INEDs; and

(e) 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.

- Nomination Policy

  The Group has a formal, considerate and transparent nomination policy for the appointment of new Director or re-election of Directors to the Board. The Group has adopted a nomination procedure and the Board, based on the criteria established, evaluate and select candidates for the directorships. In assessing, selecting and recommending candidates for directorship to the Board, the Nomination Committee will give due consideration to the factors including but not limited to:

  — Reputation for integrity;

  — Accomplishment and experience in the relevant industries in which the Company's business is involved and other professional qualifications;

  — Relevant skills and experience to contribute to the Board;

  — Commitment in respect of available time and relevant interest;

  — Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;

  — Contribution that the candidates can potentially bring to the Board;

  — Plans in place for the orderly succession of the Board; and

  — Independence criteria as required under the Listing Rules for candidates for INEDs. All candidates must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules.

- These above-mentioned factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

  The Nomination Committee considers the personal profile and credentials of the proposed candidates and may request candidates to provide additional information and documents if it considers necessary, and assesses the proposed candidates or incumbent candidates on criteria set out above. The Nomination Committee may also invite nominations of suitable candidates from Board members (if any) for consideration by the Nomination Committee prior to its meeting. For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election and re-election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

- Board Diversity Policy

  — The Company has adopted a board diversity policy (the "**Policy**") in August 2013 which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. The Policy has been available on the Company's website and a summary of Policy is set out as below:

  The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company'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, experience (professional or otherwise), skills and knowledge and length of service.

  — During the year under review, the Nomination Committee held 1 meeting to review the composition of the Board and its committees as well as the background and experiences of the Board members and evaluate the contributions of the Board members to the Group in 2022. An analysis of the Board's current composition is set out in the following table:

| Name of director | Title | Age | Gender | Professional/Industry experience | Length of service on Board (since) |
|---|---|---|---|---|---|
| Mr. Zhu | ED and Chairman | 55 | Male | Environmental protection and investment | August 2019 |
| Mr. Hu | ED | 45 | Male | Financial investment, capital operation and the real estate investment | July 2021 |
| Ms. Deng | ED | 48 | Female | Accounting and investment | July 2012 |
| Ms. Chu | ED, Company Secretary and Group Financial Controller | 52 | Female | Accounting, auditing and financing | October 2006 |
| Mr. Wong | INED | 58 | Male | Accounting, auditing and financing | October 2012 |
| Ms. Qiu | INED | 44 | Female | Accounting and property management | September 2016 |
| Mr. Richard Lam | INED | 64 | Male | Accounting, taxation and corporate finance | August 2019 |

ED: Executive Director
INED: Independent non-executive Director

- The Board currently has three female Directors out of seven Directors. The Company is of the view that gender diversity in respect of the Board has been achieved. Of the approximately 1,010 employees (including Directors and senior management) of the Group as at December 31, 2022, 288 are female employees which accounted for 29% of the total number of employees. Accordingly, the Company considers that gender diversity is also achieved in its workforce generally. In addition, the Group has taken measures to promote diversity at all levels of its workforce. Training and career development are equally opened to all eligible employees without discrimination. During the year ended December 31, 2022, the Board, through the Remuneration and Nomination Committee, has reviewed the implementation and effectiveness of the Board Diversity Policy from time to time and at least on an annual basis and confirm that the Board has an appropriate mix of skills and experience to deliver the Group's strategy. The Board is also of the view that the nomination policy of the Company can ensure there will be a pipeline of potential successors to the Board to maintain gender diversity. For further information about the gender ratio in the workforce, please refers to the Environment, Social and Governance Report in this report.

- The Nomination Committee review the Policy from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

- During the year, the Nomination Committee held 2 meetings and the attendance of each member is set out in the section headed "The Board" of this report.

*A.6 Responsibilities of the Directors*

- The Company ensures that every newly appointed Director should receive a formal and tailored induction on appointment and a comprehensive information package containing business activities and operation of the Group, the Directors' responsibilities and duties and other statutory requirement upon his/her appointment. The Company Secretary is responsible for keeping all Directors updated on the Listing Rules and other statutory requirement.

- All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All Directors have confirmed that they have complied with code provision C.1.4 of the CG Code for the year ended 31 December 2022. During the year, Company Secretary has provided the updated materials in relation to amendments to the Listing Rules in 2022 and other rules to the Directors.

During the year, the Directors participated in the following training:

| | Type of Continuous Professional Development | | |
|---|---|---|---|
| | Training on regulatory development, directors' duties or other relevant topics | Reading on regulatory updates or information relevant to directors' duties and the Company | Courses relating to Corporate Governance/ Accounting/ Financial or other professional skills |
| Mr. Zhu | X | | |
| Mr. Hu | | X | |
| Ms. Deng | | X | |
| Ms. Chu | X | X | X |
| Ms. Qiu | | X | |
| Mr. Wong | X | X | X |
| Mr. Lam | | X | |

- INEDs were well aware of their functions and had been actively providing their independent advices at the Board meetings, take the lead where potential conflicts of interest arise and scrutinize the Company's performance so as to achieve agreed corporate goals.

- Up to the date of this report, Mr. Wong and Mr. Lam both of INEDs, are members of the Audit, Remuneration and Nomination Committees. Ms. Qiu is a member of Audit Committee.

- There were satisfactory attendances and active participations at the Board meetings, the Board Committee meetings and the general meetings by the Directors.

- The Company has adopted the full set of Model Code set out in Appendix 10 of the Listing Rules as the code of the conduct for securities transactions by Directors (the "**Model Code**"). The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are privy to price sensitive information of the Group. Having made specific enquiry of all Directors, the Board confirms that the Director of the Company have complied with the Model Code regarding directors' securities transactions during the year and up to the date of this Report.

*A.7 Supply of and access to information*

- The Company's senior management regularly supplies the Board and its Committees with adequate information in a timely manner to enable them to make informed decisions.

- For Board meetings and the Board Committee meetings, the agenda accompanying with Board papers and relevant materials were sent to all Directors at least 3 days before the intended date of the Board meetings or Board Committee meetings. Queries raised by the Directors would be responded promptly by the relevant management.

**B Remuneration of Directors and Senior Management**

The Company has established a Remuneration Committee since 29 June 2005 with written terms of reference in consistence with the CG Code. A majority members of the Remuneration Committee is INEDs.

The Remuneration Committee currently comprises two INEDs, namely Mr. Wong (Committee Chairman), Mr. Lam and Mr. Zhu, an executive Director. On 29 December 2022, the terms of reference of the Remuneration Committee was revised and is available on the Company's website and on the Stock Exchange's website.

- The main duties of the Remuneration Committee include the following:

  i. to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

  ii. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

  iii. either: (i) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management; or to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

  iv. to make recommendations to the Board on the remuneration of non-executive Directors;

  v. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

  vi. to review and approve the compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

  vii. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

  viii. to ensure that no Director or any of his or her associates is involved in deciding his or her own remuneration;

  ix. to review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules; and

  x. to consider and implement other matters, as defined or assigned by the Board or otherwise required by the Listing Rules from time to time.

- The Remuneration Committee would consult the Chairman or CEO the proposals relating to the remuneration of other executive Directors. The Remuneration Committee may have access to external professional advice if considered necessary.

- The details of the remuneration of the Directors are set out in note 44 of the consolidated financial statements of this annual report. The band of the emoluments of senior management personnel and related number of members of senior management personnel are as follows:

| | 31 December | |
|---|---|---|
| | **2022** | 2021 |
| **Emolument band (HK$)** | **Number of individuals** | Number of individuals |
| Nil to 500,000 | **3** | 1 |
| 500,001 to 1,000,000 | **2** | 3 |
| 1,000,001 to 2,000,000 | **2** | 2 |

During the year, the Remuneration Committee determined the remuneration packages of the executive Directors including INEDs and senior management of the Company, and reviewed the collective performance and individual performance and the remuneration policy of the Group.

- The Group's share option scheme as described on note 41 of this annual report is adopted as the Group's long-term incentive scheme.

- Remuneration Policy

  The Group's remuneration policies are formulated based on the performance of individual employees and the Group's performance and are reviewed regularly. We have adopted employee incentive plans designed to attract, retain, motivate and encourage employees to commit to enhancing value for us and our shareholders as a whole. In addition, the Group has retention programmes that include individual development plans, merit wage adjustments, annual incentive plans and promotions. We offer training programmes to our employees which are designed to develop the skills that we need to meet our enterprise goals and customer requirements and to meet certain training requirements such as regulatory requirements and contractual obligations.

- The Remuneration Committee held 2 meetings during the year to review and approve the remuneration of executive Directors including INEDs and senior management. The attendance record of individual members is set out in the section headed "The Board" of this report.

## C Accountability and Audit

### *C.1 Financial Reporting*

- Management was required to provide detailed reports and sufficient explanation to enable the Board to make an informed assessment of the financial and other information put before for approval.

- The directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2022. The Board must ensure that the financial statements of the Group are prepared so as to give a true and fair view of the financial status of the Group.

- The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirement.

- A statement by the independent auditor of the Company about their reporting responsibilities is included in the Report of the Auditors on pages 144 to 148 of this annual report.

- A separate statement in the Annual Report on pages 11 to 51 containing a discussion and analysis of the Group's performance.

- Executive Directors are provided with a wide range of reports on monthly intervals and are fully aware of the Company's latest performance, position and prospects.

### *C.2 Risk Management and Internal Control*

The Board acknowledges its responsibility to establish, maintain and review a sound and effective risk management and internal control systems on an ongoing basis. An enterprise risk management (**ERM**) framework is in place to implement risk management and internal control effectively.

It should be acknowledged that our risk management and internal control systems are designed to manage rather than eliminate the risks of failure to achieve the Group's business objectives, and can only provide reasonable, but not absolute assurance against material misstatements or losses.

#### Risk Management Structure

Effective risk management resides at all levels of the Group. Staff in different business units identify and manage risks during their daily operation, the management is responsible for identifying, assessing and responding to risk at strategic level. The Board and the Audit Committee reviews and monitors major risks and the effectiveness of risk management and internal control systems. This top down and bottom up approach, together with independent review by the internal audit function, assisted the Group to manage its major risks in an effective manner.

### Board Oversight

*The Board*

- Oversees the risk management and internal control systems;
- Determines the Group's business strategies and risk appetite;
- Reviews at least annually the effectiveness of the risk management and internal control systems; and
- Monitors the risk management and internal control systems in an on-going manner.

*Audit Committee*

- Oversees the evaluation and improvement process of risk management and internal control systems;
- Reviews the Group's risk register; and
- Reviews and approves the internal control review plan and review results.

### Internal audit function and external auditors

*Internal Audit Function*

- Identify and monitor all risks relevant to daily operations of the Group;
- Report to the Board and Audit Committee on the risks identified including strategic, operational, financial, ESG, reporting and compliance risks and its changes during the year;
- Implement, execute and on-going monitor risk management and internal control processes; and
- Develop and execute appropriate action plans to mitigate the risk identified and to resolve material internal control defects.
- Review the effectiveness of the Group's risk management and internal control systems;
- The scope of the internal control review is risk-based and is reviewed by the Audit Committee; and
- Communicate the internal control review result directly to the Audit Committee.

*External Auditor*

- Communicate internal control issues they noticed during their audit to Audit Committee directly.

### Risk Management Process

The risk management process defined the procedures for identifying, assessing, responding and monitoring risks and their changes. The Management discusses regularly with each operating function to collect their views towards the risks they have identified at operation level, and to strengthen their understanding of risk management at the Group's strategic level to foster two way communication. Management collects views towards risks at different angles and formulates risk universe, from which risks relevant to the Group are identified. Risk identification is a continuous and interactive process, and major risks are communicated between the bottom and the top.

Significant risks are classified into one of the five categories: strategic, operational, ESG, financial, reporting and compliance. After identified all relevant risks, the Management assesses the potential impact and possibilities of the risks and prioritize the risks, appropriate internal control measures are then developed to mitigate the risks and the effectiveness of internal control measures and changes of risks are monitored in an ongoing manner and communicated to the Board and Audit Committee to allow their monitoring at the top level.


### Main features of our risk management and internal control systems

*Maintain an effective internal control system at operational level*

- Establish clear internal control policies and procedures, clearly define the responsibilities, authorities and accountabilities of each key position;

- Establish code of conduct, explain the Group's requirements on integrity and ethical value to all staff;

- Establish whistle blowing mechanism, encourage employees to report incidents of misconduct or fraud;

- Establish anti-corruption policy to prevent incidents of bribery, extortion, fraud, and money laundering and comply with the laws of the place where the business of the Group carries on, to report the issues to the relevant Government authorities;

- Establish appropriate level of information technology access rights, avoid leakage of price sensitive information; and

- Establish insider information disclosure policy, including reporting channels and responsible person of disclosure, unified response to external enquiries and obtain advices from professionals or the Stock Exchange of Hong Kong Limited, if necessary.

In evaluating the effectiveness internal control systems, the Board has considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting, internal audit and financial reporting functions as well as those relating to the Group's ESG performance and reporting.

*On-going risk monitoring at risk management level*

The Management identifies and mitigates major risks according to the risk management process, the identified risks are summarized in risk register and submitted to the Board and Audit Committee for their review together with annual internal control review plan to enable the Board and Audit Committee effectively monitor major risks of the Group and how the risks are managed. Major risks relevant to the Group are shown on pages 47 to 50 of this Report. Material risks relating to ESG are shown on page 99 in the Environmental, Social and Governance Report.

*Independent review*

The Group has established an independent risk control department to conduct an internal control review on an annual basis, the scope of review has covered the period from 1 January 2022 to 31 December 2022. The results of the internal control review has been submitted to the Audit Committee.

The Management has established remediation and improvement plan for internal control weaknesses identified. Nothing has come to the Audit Committee's or Board's attention to believe that risk management and internal control systems of the Group are inadequate or ineffective.

*C.3 Audit Committee*

The Audit Committee of the Company was established since 29 June 2005 with specific written terms of reference. The Audit Committee comprises 3 INEDs, namely Mr. Wong (Committee Chairman), Ms. Qiu and Mr. Lam. Mr. Wong and Mr. Lam are certified public accountant for many years. The revised term of reference of the Audit Committee is available on the Company's website and on the Stock Exchange's website.

The major duties of the Audit Committee include:

(a) to make recommendations to the Board on the appointment, reappointment and removal of the external auditor and to approve the remuneration and the terms of engagement of the external auditor;

(b) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and to review significant financial reporting judgments contained in them;

(c) to monitor and review the Company's financial controls, internal control and risk management systems;

(d) to co-ordinate between the internal and external auditors, to monitor the performance of both internal and external auditors and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor the effectiveness of the internal audit function;

(e) to review the interim and final results of the Group prior to recommending them to the Board for approval;

(f) to ensure compliance with applicable statutory accounting and reporting requirements, Listing Rules, legal and regulatory requirements, an internal rules and procedures approved by the Board;

(g) to review and discuss the adequacy of resources, qualifications or experience of staff of the Group's accounting and financial reporting function and their training programs and budget;

(h) to monitor the compliance of the Whistle-blowing policy and ensuring the fair and independent investigation with appropriate follow up action;

(i) to report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

For the year under review, the Audit Committee held 3 meetings included the reviewing of the financial statements, annual report and accounts and interim report. The Group's annual report for the year ended 31 December 2022 and internal audit reports have been reviewed by the Audit Committee. The attendance record of individual members is set out in the section headed "The Board" of this report.

## D. Delegation by the Board

### *D.1 Management functions*

- When the Board delegates aspects of its management and administration functions to the management, it has given clear directions as to the powers of management, in particular, with respect to the circumstance where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

- The segregation of duties and responsibilities between the Board and the management has been defined as follows:

  The overall management of the Company's business is vested on the Board. The duties of the Board include:

  — Formulating and the approval of the Company's operational strategies and management policies and establishing corporate governance and internal control system;

  — Setting the objectives and targets of the Company;

— Monitoring performance of management and providing guidance to the management; and

— Reviewing the Company's policies and practices on corporate governance.

The day to day management administration and operation of the Company are delegated to the senior management. The duties of the management include:

— Regularly evaluating businesses and operation performance;

— Ensuring effective implementation of the Board's decision;

— Ensuring adequate fundings; and

— Monitoring performance of the management of the Group.

- Each Director including INED was appointed by formal letter of appointment with the Company upon appointment. Such letter of appointment sets out key terms and condition, the roles and functions and amount of remuneration.

*D.2 Board Committees*

The Company has set up four committees including an Audit Committee, a Remuneration Committee, a Nomination Committee and an Investment Committee of the Board with respective terms of reference which clearly defined its authority and duties. The Chairman of Board Committees reported to the Board their work, findings and recommendations at the Board meetings.

*D.3 Corporate Governance Functions*

The Board as a whole is responsible for performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the CG code and disclosure in the Corporate Governance Report.

## E Communication with shareholders and investors

### *E.1 Effective communication*

- The AGM or other general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, other members of the respective committees, are available to answer questions at the shareholders' meetings.

- The Company serves notice to shareholders in writing of not less than twenty-one (21) clear days and not less than twenty (20) clear business days before the AGM. Any Extraordinary General Meeting ("**EGM**") at which the passing of a Special Resolution may be called by notice in writing of not less than twenty-one (21) clear days and not less than ten (10) clear business days. All other EGM may be called by notice in writing of not less than fourteen (14) clear days and not less than ten (10) clear business days.

- The external auditor of the Company should attend the AGM to answer questions about the conduct of audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

- Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors proposed by shareholders.

- The updated consolidated version of the Company's Memorandum and A.A. (the "**M&A**") is available on the Company's website and on the Stock Exchange's website respectively. During the year, the Company had amended the M&A for the purposes of, among others, (i) bringing the M&A into line with the latest legal and regulatory requirements, including the applicable laws of the Cayman Islands and the amendments made to Appendix 3 of the Listing Rules which took effect on 1 January 2022; (ii) allowing general meetings to be held as hybrid meetings or electronic meetings where the shareholders of the Company may attend by electronic means in addition to physical meetings which the shareholders may attend in person; (iii) making some other housekeeping improvements, a special resolution for approving the amendments to the M&A and adopting the amended and restated M&A was passed at annual general meeting of the Company held on 24 June 2022.

- The Board has adopted a Shareholders' Communication Policy reflecting mostly the current practices of the Company for communication with its Shareholders. Such policy aims at providing the Shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. The policy will be reviewed regularly to ensure effectiveness and compliance with the prevailing regulatory and other requirements. A summary of Shareholders' Communication Policy is set out as below:

- Shareholders' Communication Policy

  The Group has established several channels and maintained close communication with shareholders and potential investors through emails, conference calls, one-on-one meetings and non-deal roadshows, to ensure that its shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information and updates about the Company for exercising their rights in an informed manner and engaging actively with the Company. The Group also managed to arrange several physical events for investors and analysts, including inviting them to participate in the Group's trade fairs so as to deepen the capital market's understanding of the Group's business and operations and further enhance corporate transparency. To enhance communications and relationships with its investors, designated Directors or senior management maintains regular dialogue with investors and analysis to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. The Company maintains a corporate website (www.chinawaterind.com) as one of the channels to promote effective corporate communication with the investors and the general public. The investors may also visit the Group's website at (www.chinawaterind.com) where the Group's announcements, financial information, stock quotes, press releases and other information are posted. The Board has conducted an annual review of the implementation and effectiveness of the shareholders' communication policy of the Company, and concluded that the policy was implemented effectively during the year under review.

- Dividend Policy

  The Company has adopted a dividend policy ("**Dividend Policy**") on 3 January 2019. In proposing any dividend payout and/or determining the form, frequency and/or the amount of such dividend payout, the Board shall take into account, inter alia:

  a) the Group's actual and expected financial performance;

  b) retained earnings and distributable reserves of the Group and each of the members of the Group;

  c) the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;

  d) the Group's capacity from current and future operation, future commitments at the time of preparing and making the distribution;

  e) any restrictions on payment of dividends that may be imposed by the Group's lenders;

  f) any restrictions under the laws of Hong Kong and Cayman Islands and the Company's A.A.;

g) the dividends received from the Group's subsidiaries and associates, which in turn will depend on the ability of those subsidiaries and associates to pay a dividend;

h) the Group's expected working capital requirements;

i) general economic conditions, business cycle of the Group's core business and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

j) any other factors that the Board deem appropriate.

This Dividend Policy and the declaration and/or payment of future dividends under this policy are subject to the Board's continuing determination that this Dividend Policy and the declaration and/or payment of dividends would be in the best interests of the Group and Shareholders, and are in compliance with all applicable laws and regulations. The Board endeavours to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable Dividend Policy.

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the Dividend Policy at any time. This Dividend Policy shall in no way constitute a legally binding commitment by the Group in respect of its future dividend and/or in no way obligate the Group to declare a dividend at any time or from time to time.

*E.2 Shareholders' rights*

- Procedures for Shareholders to Convene an EGM

  Pursuant to the A.A. of the Company, the Directors may, whenever they think fit, convene an EGM. EGM shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary for the purpose of requiring an EGM to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

- Procedures for Proposing a Person for Election as a Director

  As regards the procedure for proposing a person for election as a Director, please refer to the procedures made available under the "**Corporate Governance**" section ("**Procedure for shareholders to propose a person for election of Directors**" sub-section) of the Company's website at www.chinawaterind.com.

- Procedures for Directing Shareholders' Enquiries to the Board

  Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are set out in the "Contact Us" section of the Company's website at www.chinawaterind.com or send an email to us at info@chinawaterind.com.

- Procedures for making proposals at Shareholders' Meetings

  To put forward proposals at an AGM or EGM, the shareholders should submit a written notice of those proposals with detailed contact information to the Company Secretary at the Company's principal place of business at Office H, 8/F., Kingston International Centre, 19 Wang Chiu Road, Kowloon Bay, Hong Kong. The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

  The notice period to be given to all shareholders for consideration of the proposal raised by the shareholders concerned at an AGM or EGM varies according to the nature of the proposal, as follows:

  - At least 14 clear days if the proposal constitutes an ordinary resolution of the Company in an EGM.

  - At least 21 clear days if the proposal constitutes a special resolution of the Company in an EGM.

  - At least 21 clear days if the resolution of the Company in an AGM.

*E.3 Voting by poll*

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's A.A.. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results were published on the website of the Stock Exchange as well as the Company's website.

## F. Company Secretary

The Company Secretary has been a full time employee who has knowledge of the Company's affairs. The appointment of the current Company Secretary was approved by the Board in November 2006. The Company Secretary reports to the Chairman and is responsible for advising the Board on corporate governance matters. For the year under review, the Company Secretary has confirmed that she has taken no less than 15 hours of relevant professional training.

## G. Investment Committee

The Investment Committee of the Company was established since 18 December 2008 with specific terms of reference.

The Committee members consisted of three executive Directors, namely Mr. Zhu (Committee Chairman), Ms. Chu, Mr. Hu and four Vice Presidents of the Company including Mr. Tang Po Shing, Mr. Liu Wei Qing, Mr. Zhong Wei Guang and Mr. Pan Yimin. The terms of reference of the Investment Committee is available on the Company's website.

- The role of Investment Committee is to oversee the Company's long-term development strategies and major investment decisions and to provide recommendations on the investment of the Company including asset allocation and new investment proposal.

- The major duties of the Investment Committee include:

  (a) Analysis and evaluation of the Company's long-term planning and major investment plans;

  (b) Review the investment policies and strategy;

  (c) Review and analysis of the actual progress of the Company's major strategies plans;

  (d) Review the annual investment proposal of the Company; and

  (e) Report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

- The Investment Committee held 3 meetings during the year. The attendance record of executive Directors is set out in the section headed "The Board" of this report.

## H. Auditors' Remuneration

For the financial year, the remuneration paid and payable to Crowe (HK) CPA Limited, the auditors of the Company, totalled approximately of HK$2,850,000 of which HK$2,540,000 related to audit services and HK$310,000 to professional services for special engagements, taxation and other non-audit services. The auditors' remuneration has been duly approved by the Audit Committee and there was no disagreement between the Board and the Audit Committee on the selection and appointment of auditor.

## COMPLIANCE WITH THE CODE ON THE CORPORATE GOVERNANCE CODE

The Company has complied with the CG Code throughout the financial year ended 31 December 2022 except for the deviation from the code provision C.2.1 in Part 2 of Appendix 14 to the Listing Rules as below:

- Pursuant to the code provision C.2.1 of the CG Code requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Mr. Zhu, an executive Director of the Company, was appointed as the Chairman of Company on 8 February 2021. Since such arrangements, the role of Chairman is performed by Mr. Zhu and the role of CEO is performed by different members of the Board. As all major decisions are made in consultation with the members of the Board, including the relevant Board Committees, and three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. In view of the above, the Company has failed to comply with code provision C.2.1 of the CG Code. The Company has made endeavors however more time is required to identify suitable candidate to be the CEO in order to comply with the Code.

# REPORT OF THE DIRECTORS

The board of Directors of the Company, present their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2022.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group is principally engaged in (i) provision of water supply, sewage treatment and construction services; (ii) exploitation and sale of renewable energy in the PRC; and (iii) property investment and development. The details of principal activities and other particulars of the subsidiaries are set out in note 21 to the consolidated financial statements.

Details of the activities during the year as required by schedule 5 to the Companies Ordinance, including a description of the key risks and uncertainties facing the Group, an indication of likely future development in the Group's business is set out under the sections of Management Discussion and Analysis on pages 11 to 51, Chairman's Statement on pages 6 to 10 of this Annual Report respectively. An analysis of the Group's performance during the year using financial key performance indicators can be found throughout this Annual Report. There were no significant changes in the nature of the Group's principal activities during the year.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to sustainable future development. We assess the materiality of various environmental, social and governance ("**ESG**") issues and take measures to control the environmental and social impacts on operations. All our businesses are required to comply with all applicable ESG laws and regulations strictly. Discussion on the Group's ESG initiatives, performance and applicable ESG laws and regulations can be found in the section headed "Environmental, Social and Governance Report" on pages 93 to 143 of this annual report.

## SEGMENT INFORMATION

Analyses of the Group's segmental information by businesses for the year ended 31 December 2022 are set out in note 8 to the consolidated financial statements.

## RESULTS

The results of the Group for the year ended 31 December 2022 and the state of affairs of the Group and the Company are set out in the financial statements on pages 149 to 300.

## DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2022 (FY2021: nil).

## CHARITABLE DONATIONS

During the year, the Group did not make any charitable donations (2021: Nil).

## RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Employees, customers and suppliers are the key stakeholders who affected the sustainability of our business. Engaging with those stakeholders will not only help us understand the possible risks and opportunities to our business, but also help us to mitigate risk and seize the opportunities in the real market situation. The Group believes that our people are critical success factors to the Group's competitiveness in the market. As such, we had adopted a Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. For details of the Share Option Scheme, please refer to page 88. Customer satisfaction with our services and products has a profound effects on our profitability. To provide good quality services to our customers, our dedicated teams are in constant communication with our customers and potential customers to uncover and create customer needs and help customers make informed decisions. Collaborative and mutual beneficial business relationship with our suppliers is of important to achieve higher levels of efficiency and competitive advantage. The Group evaluate the capabilities of our suppliers to determine if they are able to meet the requirement and needs of the Group from time to time. Developing and maintaining good relationship with various commercial banks and financial institutions always are our main tasks because our capital-intensive projects require on- going funding to maintain continuous growth.

## MAJOR CUSTOMERS AND SUPPLIERS

Information on the Group's revenue and purchases attributable to the major customers and suppliers during the year is set out as follows:

| | **2022** | 2021 |
|---|---|---|
| The largest customer | **10.41%** | 11.94% |
| Five largest customers in aggregate | **22.37%** | 25.81% |
| The largest supplier | **16.27%** | 6.62% |
| Five largest suppliers in aggregate | **46.75%** | 24.84% |

For the year ended 31 December 2022, the percentage of revenue from the five largest customers in aggregate was less than 30% of the Group's total revenue and the percentage of purchase from the five largest suppliers in aggregate was more than 30% of the Group's total purchase.

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

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year are set out in note 34(b) and note 41 to the consolidated financial statements, respectively.

## RESERVES AND DISTRIBUTIVE RESERVE

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 34 to the consolidated financial statements, respectively.

The Company had no reserve available for distribution to shareholders as at 31 December 2022 (31 December 2021: Nil).

## BANK BORROWINGS AND BANKING FACILITIES

Particulars of bank loans of the Group as at 31 December 2022 are set out in note 30 to the consolidated financial statements.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 5.

## DIRECTORS

The Directors of the Company were:

### Executive Directors:

Mr. Zhu Yongjun ("**Mr. Zhu**") *(Chairman)*
Mr. Hu Siyun ("**Mr. Hu**")
Ms. Deng Xiao Ting ("**Ms. Deng**")
Ms. Chu Yin Yin, Georgiana ("**Ms. Chu**")

### Independent non-executive Directors:

Mr. Wong Siu Keung, Joe ("**Mr. Wong**")
Ms. Qiu Na (**"Ms. Qiu**")
Mr. Lam Cheung Shing, Richard ("**Mr. Lam**")

In accordance with article 108(A) of the Company's Articles of Association ("**A.A**."), one-third of the Directors for the time being or, if their number is not a multiple of three or a multiple of three, then the number nearest to but not exceeding one-third shall retire from the office by rotation at least once every three years, Mr. Zhu, Ms. Deng and Mr. Lam will retire from office by rotation and will offer themselves for re-election at the AGM.

## DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

Biographical details of the Directors and senior management of the Company are set out on pages 52 to 55 of the Annual Report.

## EMOLUMENT POLICY

A Remuneration Committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. The Company has adopted a Share Option Scheme as incentive to Directors and eligible employees, details of the scheme are set out as "Share Option Scheme" below.

## DIRECTORS' SERVICE CONTRACTS

As at 31 December 2022, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations and does not have specific terms of appointment but is subject for retirement and for re-elections at the forthcoming AGM as required by the A.A. of the Company.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2022, the interests and short positions of each Director and Chief Executive of the Company, or their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the securities and futures ordinance ("**SFO**") which (a) had been notified of the Company and the Stock Exchange pursuant to divisions 7 and 8 of part xv of the SFO (including interests and short positions in which directors have taken or deemed to have under such provisions of the SFO) or which (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code for securities transactions by Directors of listed companies (the "**Model Code**") contained in Appendix 10 to the Listing Rules to be notified to Company and the Stock Exchange were as follows:

### Interest in the Shares

| Name of director | Nature of interest | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Mr. Hu | Beneficial owner | 27,936,000 (L) | 0.97% |
| Ms. Deng | Beneficial owner | 3,000,000 (L) | 0.10% |
| Ms. Chu | Beneficial owner | 1,112,000 (L) | 0.04% |

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 2,873,609,649 shares in issue as at 31 December 2022.

The letter "L" denotes a long position in shares of the Company.

Save as disclosed above, as at 31 December 2022, none of the Directors or Chief Executive of the Company had any interest or short position in any shares, underlying shares or debenture of the Company or any of its associated corporations (within meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of part xv of the SFO (including interests and short positions which directors have taken or deemed to have under such provisions of SFO) or (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code to be notified to Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2022, the following persons and entities, other than a Director or Chief Executive of the Company disclosed under the section "Directors' and Chief Executive's interests in securities" above had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of SFO or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

| Name of shareholder | Capacity | Number of issued ordinary shares held | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|
| Step Wide Investment Limited | Beneficial owner | 707,821,018 (L) (Note 1) | 24.63% |
| Honghu Capital Co. Ltd. | Beneficial owner | 161,532,000 (L) (Note 2) | 5.62% |

Note 1: These shares are held by Step Wide Investment Limited ("**Step Wide**") which Mrs. Chu Yuet Wah ("**Mrs. Chu**") is the beneficial owner. Mrs. Chu is deemed to be interested in shares held by Step Wide by virtues of the SFO.

Note 2: These shares are held by Honghu Capital Co. Ltd. ("**Honghu Capital**") which Mr. Deng Jun Jie ("**Mr. Deng**") is the beneficial owner. Mr. Deng is deemed to be interested in shares held by Honghu Capital by virtues of the SFO.

Note 3: The shareholding percentage in the company is calculated on the basis of 2,873,609,649 shares in issue as at 31 December 2022.

Note 4: The letter "L" denotes a long position in shares.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share Option Scheme" below, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Chief Executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## PERMITTED INDEMNITY PROVISION

Pursuant to the A.A., every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto, and 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 or her office or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year.

## COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group's operations are mainly carried out by the subsidiaries of the Company in Hong Kong and the PRC while the shares of the Company are listed on the Stock Exchange. The Group's establishment and operations shall comply with the relevant laws and regulations in Hong Kong, the PRC and the relevant places of incorporation of the Company and its subsidiaries. In addition, the Company is required to comply with the Listing Rules and SFO. As far as the Board and the management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year and up to the date of this report, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

## KEY RISKS AND UNCERTAINTIES

The Group's key risks and uncertainties are set out under the paragraph headed "Key Risks and Uncertainties" in the section headed "MANAGEMENT DISCUSSION AND ANALYSIS" on pages 47 to 50 of this annual report.

## EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme adopted by the Company described below, the Group has not entered into any equity-linked agreements during the year.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in the year under review.

## TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the shareholders by reason of their holding of the Company's securities.

## DIRECTOR'S INTEREST IN TRANSACTIONS, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

No transaction, arrangement and contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, and in which a Director or any entity connected with such a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2022.

## MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

During the year, the Group entered into the following material related party and connected transactions:

### 1. Financial Assistance Received by the Group

*A.* As at 31 December 2022, the loan due to Kingston Finance Limited was HK$70 million. For the FY2022, the interest expenses incurred for the loans financing were approximately HK$21.78 million. The following is the analysis of the aforesaid loan:

On 29 June 2021, Mrs. Chu Yuet Wah ("**Mrs. Chu**") acquired entire equity interests in Step Wide Investment Limited (the "**Step Wide**"). Step Wide is a substantial shareholder of the Company which Mrs. Chu is the beneficial owner. Mrs. Chu is deemed to be interested in the shares held by Step Wide by virtue of the SFO. Kingston Finance Limited (the "**Lender 1**") is indirectly wholly-owned by Mrs. Chu. Accordingly, The Lender is an associate of Mrs. Chu (as defined in the Listing Rules) and thus became a connected person of the Company on 29 June 2021.

Prior to Mrs. Chu becoming the substantial shareholder of the Company, on 19 March 2021, China Water Industry (HK) Limited (the "**Borrower I**"), a wholly-owned subsidiary of the Company entered into loan agreement with the Lender I for HK$80.00 million (the "**Loan A**") at an interest rate of 15% per annum and repayable within one year. The drawdown date for the Loan A was on 19 March 2021. Loan A was secured by the shares of two subsidiaries of the Company and corporate guarantee provided by the Company. Such loan transaction was one-off and non-revolving in nature. The interest expenses in respect of Loan A was paid to the Lender I pursuant to the terms stipulated in the loan agreement entered into with the Lender I in March 2021, prior to Mrs. Chu and the Lender I becoming connected persons of the Company. The Company considered that as of the date of execution of this loan agreement in March 2021 did not constitute connected party transaction of the Company. During the year, partial repayment of HK$10.00 million in respect of the principal of Loan A had been made and the remaining principal balance of Loan A was mutually agreed to be repayable on demand.

*B.* As at 31 December 2022, the loans due to Excellent Point Asia Limited (the "**Lender II**") in aggregate were HK$17.00 million. For the FY2022, the interest expenses incurred for the loans financing were approximately HK$3.51 million. The following is the analysis of the aforesaid loans:

On 24 January 2022, the Company (the "**Borrower II**"), entered into a loan agreement with Excellent Point Asia Limited (the "**Lender II**") for HK$33.00 million (the "**Loan B**"), interest-bearing at a rate of 15% per annum and repayable within one year. During the year, partial repayment of HK$25.00 million in respect of the principal of Loan B had been made. In addition, on 24 May 2022, the Borrower II entered into a loan agreement with the Lender II for HK$5.00 million (the "**Loan C**") at an interest rate of 12% per annum and repayable within one year. Furthermore, on 22 December 2022, the Borrower II entered into a loan agreement with the Lender II for HK$4.00 million (the "**Loan D**") at an interest rate of 12% per annum and repayable within one year.

Loan B, Loan C and Loan D were unsecured and unguaranteed. The remaining principal balance of Loan B, Loan C and Loan D were mutually agreed to be repayable on demand.

Lender II is wholly-owned by Mr. Zhu, who is the Chairman and an executive Director of the Company. The Lender II is an associate of Mr. Zhu (as defined in the Listing Rules) and thus became a connected person of the Company, the entering into the loan agreements in respect of Loan B, Loan C and Loan D constituted connected transactions of the Company as defined under Chapter 14A of the Listing Rules. However, given Loan B, Loan C and Loan D were made for the benefit of the Group, on normal commercial terms with no security over the assets of the Group. In this regard, Loan B, Loan C and Loan D were fully exempt under Rule 14A.90 of the Listing Rules.

### 2. Rental of premise

On 26 August 2022, South Top Investment Limited, a wholly-owned subsidiary of the Company as the tenant, entered into a tenancy agreement (the "**Tenancy Agreement**") with Star Wing International Limited (the "**Landlord**") for leasing Office H, 8/F, Kingston International Centre, 19 Wang Chiu Road, Kowloon Bay, Hong Kong (the "**Premise**"), for a term of three years with commencement of 2 months rent free renovation period from 20 July 2022. The Premises upon completion of renovation will be used as the principal office of the Group in Hong Kong. The ultimate beneficial owner of the Landlord is Mrs. Chu, hence the Landlord is a connected person of the Company, the entry into the Tenancy Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules. In accordance with HKFRS 16 "Leases", the Company recognised a right-of-use asset on its consolidated statement of financial position in connection with the lease of the Premises under the Tenancy agreement. Accordingly, the lease transaction under the Tenancy Agreement regarded as an acquisition of asset by the Company for the purpose of the Listing Rules. The audited aggregated value of the right-of-use asset recognised by the Company under the terms of the Tenancy agreement amounted to approximately HK$2.58 million, which was the present value of total rent payable calculated in accordance with HKFRS 16. As the audited aggregated value of the right-of-use asset below HK$3.00 million, it was fully exempt under 14A.76(1)(c) of the Listing Rules.

### 3. Advisory fee and placing commission

(i) For the FY2022, the advisory fee incurred for the provision of corporate finance services by Kingston Corporate Finance Limited was approximately HK$0.77 million. Kingston Corporate Finance Limited is a subsidiary of Kingston Financial Group Limited. Mrs. Chu is the controlling shareholder of Kingston Financial Group Limited. Accordingly, Kingston Corporate Finance Limited is an associate of Mrs. Chu (as defined in the Listing Rules) and thus became a connected person of the Company. The provision of corporate finance services constituted connected transaction of the Company under Chapter 14A of the Listing Rules but such transaction was fully exempt under Rule 14A.76 (1) of the Listing Rules.

(ii) For the FY2022, the placing commission incurred for the provision of placing agency services by Kingston Securities Limited was approximately HK$2.00 million. Kingston Securities Limited is a subsidiary of Kingston Financial Group Limited. Mrs. Chu is the controlling shareholder of Kingston Financial Group Limited. Accordingly, Kingston Securities Limited is an associate of Mrs. Chu (as defined in the Listing Rules) and thus became a connected person of the Company. The provision of placing agency services constituted connected transaction of the Company under Chapter 14A of the Listing Rules but such transaction was fully exempt under Rule 14A.76 (1) of the Listing Rules.

### 4. Fitting-out and interior work for the Premise

The Company engaged ISP Interiors Limited to carry out the fitting-out and interior work at the Premise (the "**Engagement**"). The fee for the Engagement was HK$1.37 million. ISP Interiors Limited (the "**ISP interiors**") is a wholly-owned subsidiary of ISP Holdings Limited (the "**ISP**"). Champ Key Holdings Limited (the "**Champ Key**") is a controlling shareholder of ISP. Champ Key is wholly-owned by Mrs. Chu. Accordingly, ISP Interiors is regarded as a connected person of the Company under the Listing Rules, and the Engagement constitutes a connected transaction under Chapter 14A of the Listing Rules, but the transaction was fully exempt under 14A.76(1)(c) of the Listing Rules.

As disclosed above, none of the fully exempted connected transactions as defined under the Listing Rules are required to be disclosed under the Listing Rules. The Company has complied with the disclosure requirement prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions entered into by the Group during the year under review. Details of the related party and connected transactions of the Group are also set out in note 46 to the consolidated financial statements.

## RELATED PARTY TRANSACTIONS

Details of material related party transactions are set out in note 46 to the consolidated financial statements.

## MATERIAL LITIGATIONS AND ARBITRATION

Details of material litigation and arbitration are set out in note 45 to the consolidated financial statements.

## IMPACTS OF COVID-19

As of the date of this report, to the best of the Company's directors' knowledge, the COVID-19 pandemic will not have a material adverse impact on the Group's financial position and results of operations as the Group has properly maintained appropriate levels and controls to cope with the COVID-19 pandemic during the Reporting Period.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, pursuant to the Listing Rules, other than those business of which Directors were appointed as directors to represent the interest of the Company and/or the Group.

## SHARE OPTION SCHEME

At the AGM of the Company held on 2 June 2021, the shareholders of the Company approved the adoption of the Company's new share option scheme ("**Scheme**") and the termination of the Company's then existing Share Option Scheme. The Scheme adopted by the Company was on 3 June 2021. A summary of the principal terms of the Scheme, as disclosed in accordance with the Listing Rules on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") is as follows:

### (i) Purpose

The purpose of the Scheme is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contribution or potential contribution to the development of the business and operations of the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group. In determining whether a person has contributed or will contribute to the Group, the Group will take into account, among other things, whether contribution has been made to or will be made to the Group in terms of operation, financial performance, prospects, growth, reputation and image of the Group.

### (ii) Qualifying participants

Under the terms of the Scheme, the Directors of the Company may, at their discretion, grant options to the any directors, whether executive or non-executive and whether independent or not, of the Group, full time or part time employees of the Group; and any business or joint venture partners, contractors, agents or representatives, consultants, advisers, suppliers, producers or licensors, customers, licensees (including any sub-licensees) or distributors, landlords or tenants (including any sub-tenants) of the Group (the "**eligible participants**").

**(iii) Maximum number of shares**

The scheme mandate limit for the Scheme allows the Company to issue a maximum of 159,653,976 share options under the Scheme, representing 10.00% of the issued share capital of 1,596,539,766 shares of the Company as at the date of this report.

**(iv) Maximum entitlement of each eligible participant**

Share options granted to connected person and its associates is subject to the approval of the INEDs. In addition, any grant of share options to a substantial shareholder or an INED or any of their respective associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5.00 million, within any 12-month period, is subject to the approval of the shareholders of the Company in a general meeting.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the scheme shall not exceed 10% of the shares in issue as at the date of the approval, or the maximum number of shares in respect of which options may be granted to any eligible participants may not exceed 1% of the shares in issue from time to time in a 12-month period.

**(v) Option period**

In respect of any particular option, such period commencing on the date of grant or such later date as the Directors may decide and expiring on such date as the Directors may determine, such period not to exceed 10 years from the date of grant.

**(vi) Acceptance of offer**

An offer of the grant of an option shall remain open for acceptance for a period of 21 days from the date of the letter containing the grant. An offer of the grant of the option shall be regarded as having been accepted when the duplicate of the grant letter duly signed by the grantee together with a remittance in favour of the company of HK$1.00 by way of consideration for the grant thereof is received by the Company.

**(vii) Subscription price**

The subscription price in respect of any particular option shall be such price as the Directors may determine at the date of grant of the relevant option but shall be at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares of the Company on the Stock Exchange on the date of grant; and (iii) the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option.

**(viii) The remaining life of the Scheme**

The Directors shall be entitled at any time within 10 years commencing on 3 June 2021 to offer the grant of an option to any eligible participant. The Scheme will expire on 2 June 2031.

Save for the Scheme, the Company did not have any other share option scheme as at 31 December 2022. From the date of the Scheme being adopted up to 31 December 2022, no options had been granted and remained outstanding under the Scheme of the Company.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's A.A. or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

## PURCHASES, REDEMPTIONS OR SALES OF COMPANY'S LISTED SECURITIES

During the year ended 31 December 2022, neither the Company nor its subsidiaries purchased, redeemed or sold of the Company's listed securities.

## RETIREMENT SCHEMES

The Group's subsidiary in the PRC participates in a central pension scheme ("**CPS**") operated by the PRC government. The subsidiaries are required to contribute a certain percentage of the relevant PRC employees' salaries to the CPS. The Group's subsidiary in Hong Kong has also participated in a mandatory provident fund scheme for its staff based in Hong Kong pursuant to the mandatory provident fund schemes ordinance. Save as disclosed, the Group was not required to operate any other of retirement benefits of its employees during the year.

## EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period for the year are set out in note 47 to the consolidated financial statements.

## SUFFICIENT OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at date of this report.

## AUDIT COMMITTEE

In accordance with the requirements of the Listing Rules, the Group established an Audit Committee comprising three INEDs of the Company. The Audit Committee of the Company has reviewed the audited consolidated financial statements for the year ended 31 December 2022. Information on the work of Audit Committee and its composition are set out in the Report of the Corporate Governance on pages 71 to 72 of this report.

## CHANGE IN INFORMATION OF DIRECTORS

Pursuant to rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2021 Annual Report required to be disclosed were as follows:

i. the updated biographic details of the Directors are set out on pages 52 to 55 of the Annual Report;

ii. a. With effect from 9 September 2022, Mr. Zhu was appointed as a non-executive Director, a member of the Nomination Committee and a member of the Remuneration Committee of the Affluent Partners Holdings Limited (Stock code: 1466) which is listed on the Main Board of the Stock Exchange.

b. (i) With effect from 14 January 2022, Mr. Wong was appointed as an independent non-executive Director, the Chairman of the Nomination Committee, a member of the Audit Committee and a member of the Remuneration Committee of the Affluent Partners Holdings Limited (Stock code: 1466) which is listed on the Main Board of the Stock Exchange.

(ii) With effect from 25 March 2022, Mr. Wong was appointed as an executive Director of the DeTai New Energy Group Limited (Stock code: 559) which is listed on the Main Board of the Stock Exchange. Mr. Wong was appointed as the Company Secretary, the Authorised Representative and the Chief Financial Officer of the DeTai New Energy with effect from 10 January 2022.

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

## CORPORATE GOVERNANCE

The Company's Corporate Governance principles and practices are set out in the Corporate Governance Report on pages 56 to 79 of this Annual Report.

## CONFIRMATION OF INDEPENDENCE

The Company has received from each of the INEDs an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules and considers all the INEDs to be independent.

## ANNUAL GENERAL MEETING

The AGM of the Company will be held on Friday, 16 June 2023. Notice of AGM will be published on the websites of the Company (www.chinawaterind.com) and the Stock Exchange (www.hkexnews.hk), and will be despatched to the shareholders of the Company within the prescribed time and in such manner as required under the Listing Rules.

## CLOSURE OF REGISTER OF MEMBERS

In order to determine shareholders' eligibility to attend and vote at the forthcoming AGM of the Company to be held on Friday, 16 June 2023, the register of members of the Company will be closed from Tuesday, 13 June 2023 to Friday, 16 June 2023 (both days inclusive), during which period no transfer of shares in the Company will be registered. In order to qualify for entitlement to attend the AGM, all completed transfer forms, accompanied by the relevant share certificates, have to be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited at Suites 3301–04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration, not later than 4:00 p.m. on Monday, 12 June 2023.

## AUDITORS

Crowe (HK) CPA Limited (the "**Crowe (HK)**") will retire, being eligible and offer themselves for re-election. A resolution is to be proposed by the Company at the forthcoming AGM, to re-appoint Crowe (HK) as the auditor of the Company.

By order of the board
**Mr. Zhu Yongjun**
*Chairman and executive Director*

Hong Kong, 30 March 2023

## ABOUT THIS REPORT

### Purpose of the Report

China Water Industry Group Limited ("**China Water Industry**", "**the Company**", together with its subsidiaries collectively referred to as "**the Group**" or "**we**") is pleased to release our ninth Environmental, Social and Governance ("**ESG**") Report (the "**Report**"). The Report discloses and highlights our environmental and social sustainability policies, initiatives, and data over the past year, covering the Group's main businesses and areas of significance to stakeholders, with the aim to provide valuable information and the latest sustainability performance for stakeholders, and comprehensively respond to their demands. For information on our corporate governance work in 2022, please refer to the section headed "Corporate Governance Report" in this annual report.

### Reporting Year and Scope

This Report covers the reporting period from 1 January 2022 to 31 December 2022 (the "**Reporting Period**"). Unless otherwise stated, the scope of this Report covers the Group's core business segments including (i) provision of water supply and sewage treatment services; (ii) construction of water supply and sewage treatment infrastructure; and (iii) exploitation and sale of renewable energy in the People's Republic of China (the "**PRC**").

### Reporting Standard

This Report adheres to the four reporting principles outlined in the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") under Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**HKEX**") and complies with the disclosure obligations contained in the ESG Reporting Guide. An index of the ESG Reporting Guidelines is appended to this Report for the convenience of stakeholders.

### Access to the Report

This Report is part of the Group's annual report and is available in both Chinese and English. It is available for download and access on the Group's website at http://www.chinawaterind.com and the website of HKEX at www.hkex.com.hk.

### Contact Information

We welcome all stakeholders to provide their feedback and suggestions on the sustainable development performance and the Report of China Water Industry. Please share your feedback with us at info@chinawaterind.com.

## HIGHLIGHTS OF THE YEAR 2022

### Water supply business

**65,186,186** tonnes of clean water

Supplying clean water to **1** city

### Exploitation and sale of renewable energy business

**680,798,868** kWh of green electricity generated

As at 31 December 2022, **36** landfill-gas-to-power projects have been in operation

Equivalent to **4,030,317** tonnes of carbon dioxide emissions avoided*

* The amount of carbon dioxide emitted by the same coal power generation

### Sewage treatment business

**65,427,414** tonnes of sewage treated

**4** sewage treatment projects have been in operation

**10,723** tonnes of Chemical Oxygen Demand ("**COD**") reduced

Water hypoxia that hinders water eco-system was prevented by alleviating the amount of organic waste in water

* Covers the overall performance of the Group.

## AWARDS AND RECOGNITIONS

| Received by | Award/Recognition | Organiser |
|---|---|---|
| China Water Industry Group Limited | Advanced Business in the Field of Landfill Site for 2022（2022年度填埋場領域領先企業） | E20 Environmental Platform |
| Yichun Fangke Sewage Treatment Company Limited* | Honoring Contracts and Faithful Enterprise（「守合同重信用」榮譽證書） | Jiangxi Province Market Supervision Bureau（江西省市場監督管理局） |
| Yichun Fangke Sewage Treatment Company Limited* | Patents for Utility Model Certificate（實用新型專利證書） | National Intellectual Property Administration（國家知識產權局） |
| Yichun Water Industry Group Co., Ltd.* | Yichun Youth May Fourth Award（「宜春青年五四獎章集體」榮譽） | Communist Youth League Yichun Committee（共青團宜春市委）and Yichun Youth Union（宜春市青年聯合會） |
| Yichun Water Industry Group Co., Ltd.* | Advanced Unit for Publicity Work（宣傳思想綜合工作先進單位）<br>Advanced Unit for News Publicity Work（新聞報導單項工作先進單位） | YiChun Management and Law Enforcement Bureau（宜春市綜合行政執法局） |
| Yichun Fangke Sewage Treatment Company Limited* | Science and Technology SMEs in Jiangxi Province（江西省科技型中小企業） | Jiangxi Association for Science and Technology（江西省科學技術廳） |
| Yichun Water Industry Group Co., Ltd.* | Public Security Bureau Yuanzhou Branch — Advanced Unit of Internal Security Organisation（袁州公安分局內保組織先進單位） | Public Security Bureau Yuanzhou Branch（袁州公安分局） |
| Yichun Water Industry Group Co., Ltd.* | Yichun First Urban Management Skills Competition — Moral Award（宜春市第一屆城管技能大比武道德風尚獎） | YiChun Management and Law Enforcement Bureau（宜春市綜合行政執法局） |

* *The English names are for identification purpose only.*

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## OUR APPROACH TO SUSTAINABILITY

### Our Tenet, Mission, Vision, and Core Values

| Company tenet |
|---|
| **The Group is a professional investment and operation management service provider for municipal water service and environmental new energy which specialises in investment and operation of water and environmental protection projects** |

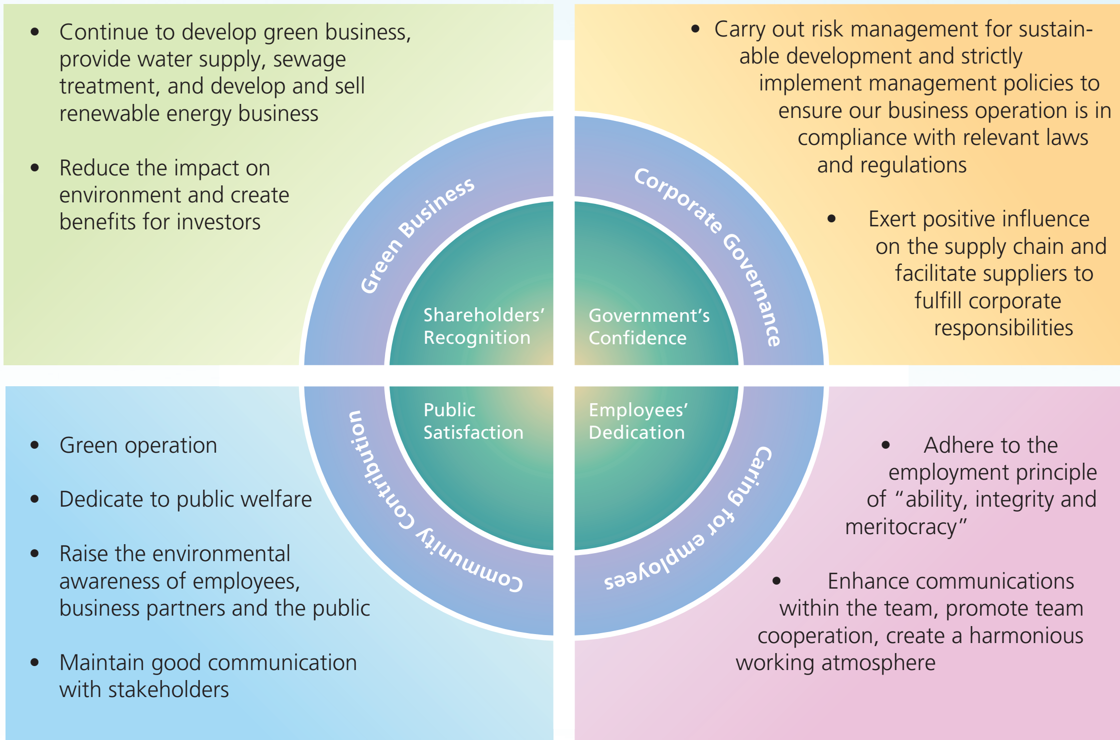
| Company mission |
|---|
| **We assume the social responsibilities of providing clean water to the public, improving the living environment and creating value for the society** |

| Company vision |
|---|
| **Headquartered in China, we aspire to expand our presence to Asia and across the world** |

| Core values |
|---|
| **We strive to provide services that embrace government's confidence, public satisfaction, shareholders' recognition and employees' dedication** |

We strive to create mutual benefits for the corporate and the society to fulfill corporate social responsibility and bring long-term and positive impact on the environment and society. Our sustainable development strategy covers four key areas, namely green business, corporate governance, caring for employees and community contributions, which comprehensively reflect our core corporate value. We will actively support country development by carrying out environmental protection works, caring for our employees and making contribution to the community, bringing long-term shared value to our stakeholders and society.

**Key Areas of Sustainable Development**



## SUSTAINABILITY GOVERNANCE

The Board upholds the overall responsibilities on the Group's ESG strategy and performance and monitoring of ESG issues. At the operation level, we have established an ESG Working Group ("**Working Group**") and strive to integrate sustainability in our daily operations. Endorsed by the Board, the Working Group oversees the ESG management approaches and regularly provides advice to the Board on the following issues:

- Formulate and review the Group's sustainability strategy prioritized issues, goals and targets;
- Identify, review and manage ESG-related material risks and opportunities;
- Review and monitor the implementation of ESG-related policies and measures, to ensure compliance with the relevant regulations and legislation;
- Monitor and review the Group's ESG performance and progress based on goals and targets;
- Review and monitor the Group's stakeholder engagement channels to ensure effective communication with key stakeholders; and
- Compile the annual ESG report for Board's approval.

## ENVIRONMENT, SOCIAL AND GOVERNANCE RISK MANAGEMENT

To effectively cope with the ESG-related risks and opportunities in our operation, we have adopted a set of risk management procedures and formulated an ESG risk policy to provide more clear guidance and regulation. The Board is responsible for determining the Group's business strategy and risk tolerance, and establishing, maintaining, and assessing the risk management and internal control system. The management is responsible for risk management of business operation and collects internal and external data and opinions of stakeholders through different channels, historical data, future forecast, and information about other relevant domestic and overseas companies, so as to identify, assess and respond to the Group's risks and opportunities, including ESG-related risks.

We conducted ESG-related risk assessment and identified ESG-related risks that were significant to the Group's business through industry analysis, stakeholder feedback collection and ESG trend analysis. Then, we prioritised the risks by assessing the impact level of each risk. For higher-level ESG-related risks, the Group will develop corresponding measures, review the effectiveness of the measures regularly, report to the Board on the identified risks and changes, and further propose enhancement measures when necessary.

**ESG Risk Policy**

| | |
|---|---|
| Objective Setting | Recognise the importance of ESG material issues to the Group. |
| Risk Assessment | Identify ESG-related risk and evaluate their significance and frequency to the Group. |
| Integration of Policies and Measures | Establish strategic policies and measures, and integrate them into the business processes to achieve different objectives. |
| Stakeholder Communication | Communicate and engage stakeholders in ESG reporting process, collect their opinions to enhance the Group's ESG strategy and long-term value creation. |
| Board Oversight | The Board (or a commitee delegated) should include competent personnel with delegation of proper authority and responsibilty, and establish proper procedures to oversee long-term ESG strategy and its execution. |

### Stakeholder Engagement

The Group deeply understands the importance of having regular communication with stakeholders. Therefore, we maintain close communication with different stakeholders to understand their opinions and expectations about the Group. Our key stakeholders include employees, governments, shareholders, business partners, non-governmental organisations, customers, suppliers, communities, etc. We will continue to listen to different voices by setting up diverse channels, to enhance the Group's sustainability strategies and policies and get prepared for future challenges.

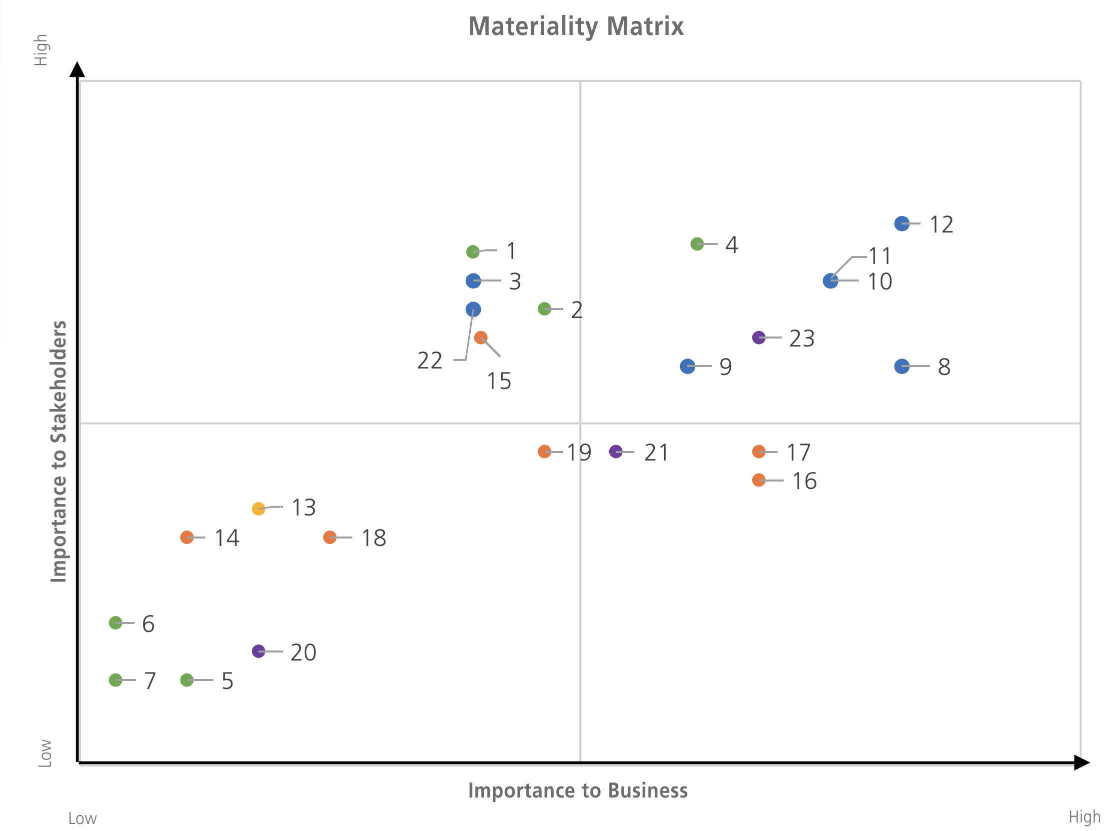
### Materiality Assessment

To determine the most relevant ESG issues to the Group and stakeholders, during the Reporting Period, the Group conducted materiality assessment based on the materiality reporting principle set out in the ESG Reporting Guide. The procedures of our materiality analysis are summarised as below:

1. Identify all relevant issues that may be considered in the report through collecting stakeholder feedback and making reference to internal management report, ESG Reporting Guide, media coverage and industry trend
2. Engage a third party consulting firm to conduct an online stakeholder questionaire and invite stakeholders from different sectors to rate the importance of the identified ESG issues
3. The Group's management assesses the importance of each relevant issue to the Group's business
4. Consolidate the ratings from internal and external stakeholders, prioritise the issues and plot materiality matrix
5. Determine the ESG issues that are most concerned by the Group and stakeholders and disclose the material issues in the report

During the Reporting Period, the results of our materiality assessment are set out in the materiality matrix below, with 7 issues in the top-right section being the most important ones for our business and stakeholders which will be highlighted in this report.

| Material Issues | Relevant Chapter/section |
|---|---|
| 12. Employment Compliance | ➢ Talent Recruitment |
| 10. Occupational Health and Safety | ➢ Occupational Health and Safety<br>➢ Mitigation Measures to COVID-19 |
| 11. Staff Development and Training | ➢ Talent Trainings |
| 8. Staff Welfare | ➢ Employee Benefits<br>➢ Protection for Our Female Employees<br>➢ Work Life Balance |
| 4. Water Consumption and Sewage Discharge | ➢ Wastewater Management in Renewable Energy Projects<br>➢ Water Management |
| 23. Business Growth | ➢ Green Business |
| 9. Equal Opportunity, Diversity and Anti-discrimination | ➢ Protection for Our Female Employees |




## Key Issues Identified

| | |
|---|---|
| 1 | Air emissions |
| 2 | Waste |
| 3 | Carbon Emission and Energy |
| 4 | Water Consumption and Sewage Discharge |
| 5 | Climate Change Risk |
| 6 | Green Procurement |
| 7 | Environmental Risk in Supply Chain |
| 8 | Staff Welfare |
| 9 | Equal Opportunity, Diversity and Anti-discrimination |
| 10 | Occupational Health and Safety |
| 11 | Staff Development and Training |
| 12 | Employment Compliance |
| 13 | Social Risk in Supply Chain |

| | |
|---|---|
| 14 | Transparency and Traceability of Raw Materials |
| 15 | Product Assurance, Quality and Safety |
| 16 | Customer Service |
| 17 | Intellectual Property Rights Management |
| 18 | Marketing and Advertising |
| 19 | Anti-corruption |
| 20 | Community Investment |
| 21 | Technological Development and Innovation |
| 22 | Economic Performance |
| 23 | Business Growth |

## CORPORATE GOVERNANCE & BUSINESS ETHICS

### Business Integrity

The Group is committed to maintaining high level of business ethics and corporate governance standards. We strictly comply with the "Provisions of the Criminal Law of the PRC" (《中華人民共和國刑法》),《"Company Law of the PRC" (《中華人民共和國公司法》), "Anti-unfair Competition Law of the PRC" (《中華人民共和國反不正當競爭法》) and other relevant laws and regulations, and formulated and implemented a set of internal procedures and guidelines. Some project companies also established "Procurement and Reimbursement Management Measures", "Financial Management System" and internal audit system, and conducted comprehensive audits on management, finance, and operations to prevent illegal acts, such as bribery, extortion, fraud, and money laundering, etc.

Besides, we require our employees to follow our ethical and professional conduct as set out in our employee handbook to ensure they perform job duties based on ethical standards of honesty and integrity and establish long-term and reliable relationship with all business partners. During the Reporting Period, the Group also provided directors and employees with anti-corruption training to raise their awareness on relevant matters, building a business environment with integrity.

If our employees discover any illegal act at work, we encourage them to report to us at once. They are required to reject any dishonest offer of money or gift. We ensure the identity of the whistleblower and the information provided remain confidential, ensuring that they will not be subject to unfair dismissal, persecution, or inappropriate disciplinary action. Any misconduct will be taken seriously, and the reported incident will be immediately and thoroughly investigated. Violators will face disciplinary action.

In 2022, the Company was not aware of any significant cases of non-compliance with laws and regulations related to bribery, extortion, fraud, and money laundering involving its business and employees.

**Uphold Discipline, Fight Against Corruption, and Fulfill Duties and Missions**

Yichun Fangke Sewage Treatment Company Limited* and Yichun Water Industry Group Co., Ltd.* engaged in pairing and co-construction party class activities during the Reporting Period. The event featured a distinguished guest, the deputy head of the Discipline Inspection and Supervision Team of Yichun Municipal Commission for Discipline Inspection and Municipal Supervisory Committee in the Municipal Comprehensive Administrative Law Enforcement Bureau, who provided employees with specialized party lectures on clean government.

The theme of the course was "Analysis of Policies Related to the Spirit of the Eight Regulations of the Central Committee," aimed at helping employees comprehend the spirit of the Eight Regulations. The course included a review of behaviors that violate the spirit of the Eight Regulations and the "Four Winds," such as receiving gifts in violation of regulations, eating, and drinking with public funds, and exceeding the standard reception. The lecture was vividly explained to ensure that employees remained strictly upright and disciplined and consolidated the defense line of clean government.

Following the class, participants praised the lecture for increasing their awareness of how to practice honesty and self-discipline and maintain the seriousness and authority of discipline. They pledged to establish awareness of the Party Constitution, Party Rules, and Party Discipline, abide by discipline and rules, be in awe and fear, consciously pursue high standards in honesty and self-discipline, and stay away from the red line of violations in strictly adhering to Party discipline.

**Yichun Water Industry Group Co., Ltd.* held the "Five Governance" Action and the Mobilization and Deployment Meeting for the Special Rectification of Grassroots Micro-corruption**

To enhance employee awareness of petty corruption, Yichun Water Industry Group Co., Ltd.* held a mobilization and deployment meeting for the "Five Governance" campaign and the special rectification of petty corruption at the grassroots level. The meeting covered content from related documents such as the "Notice on Carrying out the 'Five Governance' Campaign in the Urban Management System," the "Implementation Plan for the Special Rectification of Petty Corruption at the Grassroots Level by the Municipal Comprehensive Administrative Law Enforcement Bureau," and the "Notice on Conducting Supervision and Inspection of the Implementation of the Central Committee's Eight Central Regulations during the Dragon Boat Festival." By educating employees on the dangers of petty corruption and the importance of special rectification, we are committed to maintaining a leading business environment and ensuring the stability of our water supply guarantee work.

During the meeting, nine company executives made statements, expressing their unanimous agreement on the need to raise awareness of petty corruption and to implement the company's deployment of special rectification of petty corruption at the grassroots level. They viewed this special rectification as a "physical examination" for the department and for themselves. Subsequently, attendees signed pledges for integrity and self-discipline, committing to strictly abide by national laws and regulations and maintain discipline.

* *The English names are for identification purpose only.*

### Information Protection

We highly value the protection of customer privacy and personal information. As our water supply project company collects user information, when signing employment contract, employees are required to sign relevant non-disclosure agreement in respect of customers' information and shall commit to handle confidential documents that contain customers' information with due care and diligence. We have also established information safety management policy to ensure the relevant information are maintained in such office under strict surveillance where its access keys are kept by designated staff. Important computers and files are encrypted with passwords being managed by relevant personnel to ensure protection of customer data. During the Reporting Period, we did not receive any cases of customer privacy infringement or loss of customers' information or relevant confirmed complaints.

Besides, we strictly comply with all laws and regulations concerning intellectual property rights, such as the Patent Law of the People's Republic of China. Some of our project company's employee handbook detailed the rules related to protecting commercially confidential information, which included providing legal protection for patent applications, trademark registrations and copyright procedures. Our employees are required to comply with laws and regulations related to intellectual property rights. If any violation against the patent rights of the Group is found, we will carry out thorough investigations immediately and the relevant employees may be subject to disciplinary action or dismissal depending on the seriousness of the case.

### Supplier Management

The Group has established supplier management standards, clearly outlining our requirements on company qualifications, technology, quality, reputation, business performance, delivery capacity, and after-sale services, to ensure our project companies can analyse and select suppliers objectively. By visiting the operational locations of suppliers, we regularly evaluate their compliance, and select long-term stable suppliers through continuous investigation, analysis, and screening to establish a List of Qualified Suppliers. Suppliers who repeatedly fail to meet supply requirements will be removed from the list to ensure the quality of raw material and maintain a high-quality supplier management system.

We actively communicate with our business partners in the supply chain and are committed to promoting sustainable development to them. The Group has zero tolerance for child labour and forced labour, and upholds human rights and labour rights. We expect to work with suppliers who shares the same principles to jointly create a harmonious, fair, and sustainable society. On top of that, the Group has conducted an ESG-related risk assessment to identify potential ESG-related risks in our supply chain. We have not identified any ESG-related risks in our supply chain that have been rated as "high risk". The Board will closely monitor the ESG-related risks in our supply chain, regularly evaluate the effectiveness of control measures, and further enhance our ESG practices in terms of supplier management.

To actively support green procurement, the Group gives priority to recruit local suppliers to reduce pollutants and greenhouse gas emissions during transportation process. During the Reporting Period, we cooperated with a total of 1,043 suppliers (2021: 1,238), all of which are based in the Mainland China.

## GREEN BUSINESS

As a well-known investment and integrated service provider in the environmental protection industry, the Group actively expands its business to other areas such as the new energy development. Our business covers multiple cities and provinces including Guangdong, Jiangxi, Chengdu, and Foshan. We provide comprehensive solutions from multiple dimensions, such as water services and environmental new energy, and focus our resources on the environmental protection industry development to explore green business opportunities.

### Exploitation and sale of renewable energy

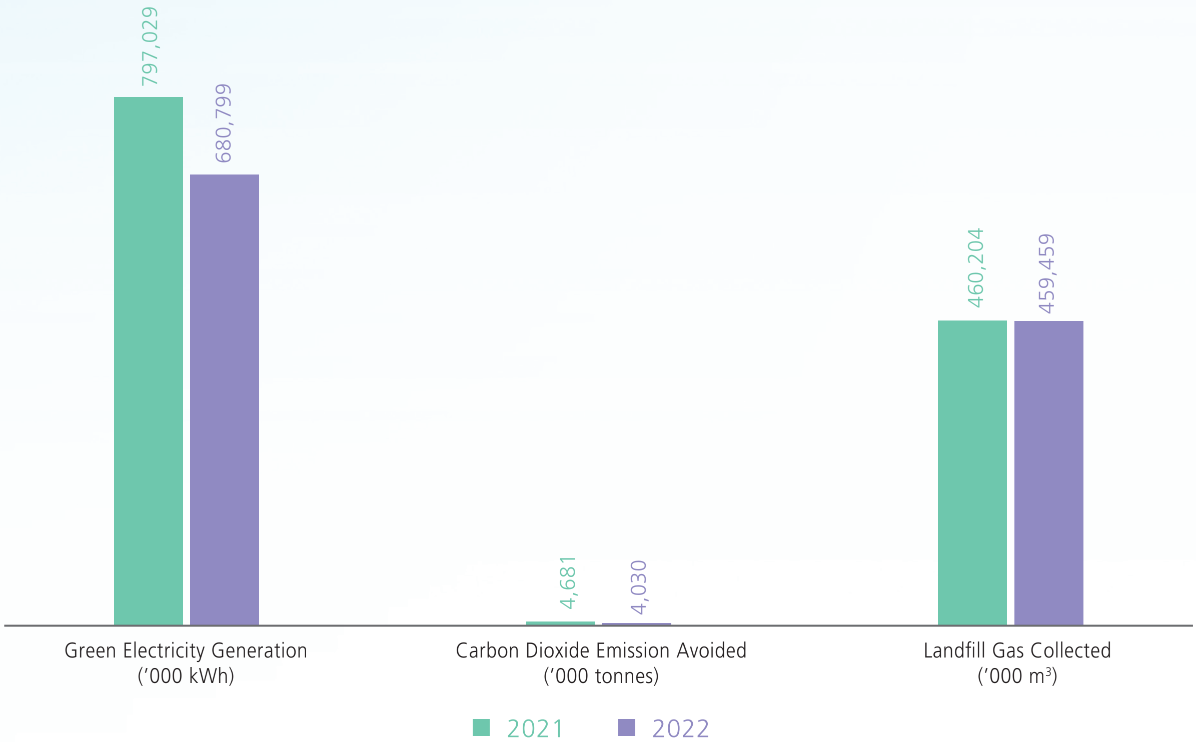
The Group is committed to supporting national environmental protection policies, including the "Guidance on Establishment of Target Oriented System for Development and Utilisation of Renewable Energy of National Energy Administration" (《國家能源局關於建立可再生能源開發利用目標引導制度的指導意見》). The Guidance clearly defines the responsibilities and obligations for development and utilisation of renewable energy in different areas to ensure the realization of energy conservation, emission reduction, increasing the proportion of non-fossil energy, and sustainable development goals. It also set out the targets for the proportion of renewable energy in total energy consumption of each province and the proportion of non-hydropower renewable energy in total electricity consumption in China, encouraging the use of renewable energy. The Group will continue to pursue the vision of "creating an environment of blue sky, green land and clear water", strive for economic and social development while maintaining the harmony between human and nature, and practice the idea of "lucid waters and lush mountains are invaluable assets".

Organic matter is a clean and renewable energy source, as it decomposes into flammable biogas in anaerobic environments, which can be converted into energy different technologies. The Group's renewable energy projects has installed biogas collection systems to generate electricity which enable the landfill sites to achieve self-sufficiency in electricity and reduce the reliance on fossil fuels for power generation. In addition, the biogas from the landfill site will migrate to the outside through underground pathways, and our biogas collection system can reduce the amount of biogas escaping from the landfill. Collecting and using biogas for power generation can reduce the odour problems caused by landfill gas emissions, thereby reducing the impact on surrounding residents. During the Reporting Period, a total of 459,458,928 $m^3$ of landfill gas was collected and equivalent to 4,030,317 tonnes of carbon dioxide emission was avoided because of our projects.

To ensure safe landfill gas power generation and grid connection, we install voltage stabilisers in the generator sets in strict accordance with the Regulations on Electricity regulation (《電力監管條例》) and the Regulations on the Administration of Power Business Licenses (《電力業務許可證管理規定》) and promptly contact the responsible power grid dispatchers. During the Reporting Period, we are not aware of any material non-compliance with the relevant laws and regulations.

As of 31 December 2022, the Group has been operating 36 landfill gas power generation projects in various provinces and municipalities including Fujian, Hunan, Shaanxi, Anhui, Hainan, Jiangxi, Sichuan, Zhejiang, Chongqing, Shandong, Hebei, Guangxi, Guangdong, etc. to deliver power to urban power grid, and generated a total of 680,798,868 kWh of green electricity throughout the year which increased the proportion of clean energy. In addition, we have been operating 2 compressed natural gas projects which generated a total of 6,434,298 m$^3$ of compressed natural gas throughout the year.

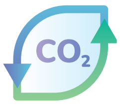
**Exploitation and sale of renewable energy**




The following is the accumulated achievement of our renewable energy business since our first waste utilisation project operation commenced in 2014:

Generated
4,236,147,768 kWh
of green electricity

Generated
97,325,000 m$^3$
of compressed natural gas




Equivalent to
28,709,474 tonnes
of carbon dioxide emission avoided

Collected
2,794,627,814 m$^3$
of landfill gas

### Sewage treatment

Effluent treatment is one of the key aspects of our sewage treatment business. To lay a solid foundation for the fight against pollution and improve the requirements for national sewage treatment and disposal, the government has formulated the "14th Five-Year Plan for the Development of Urban Sewage Treatment and Resource Utilization" (《「十四五」城鎮污水處理及資源化利用發展規劃》), aimed at comprehensively improving the efficiency of sewage collection and treatment, accelerating the promotion of sewage resource utilization, improving facility operation and maintenance levels, and enhancing residents' quality of life. The Group has 4 sewage treatment projects located in Jiangxi's Yichun, Shandong's Jining and Guangdong's Foshan, committed to serving communities through a sound sewage treatment system. Here is our performance in the sewage treatment business in 2022:

Daily aggregate sewage disposal capacity is approximately **220,000** tonnes.
**65,427,414** tonnes of sewage treated
**10,723** tonnes of COD reduced

Accumulated achievement since the commissioning of the first sewage treatment project in 2007:
**659,312,601** tonnes of sewage treated
**109,829** tonnes of COD reduced

The Group's sewage treatment business strictly adheres to the Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Criminal Law of the People's Republic of China (《中華人民共和國刑法》) and other relevant laws and regulations. All projects have obtained Pollutant Discharge Permit to operate legally. During the Reporting Period, we were not aware of any material violations of applicable laws and regulations.

We adopt facilities and treatment technologies based on the sewage properties, including Biolak technology of Germany, Cyclic Activated Sludge System (CASS) technology, and Anaerobic-Anoxic-Oxic (A2/O) technology, combining with biological oxidation tank, magnetic-coagulation separation, ultraviolet irradiation disinfection. The treated domestic sewage from the Gaoming Sewage Treatment Plant in Foshan, Guangdong Province has reached the national class IB standard, and the sewage treated at the remaining sewage treatment plants is discharged in accordance with the national class IA standard of the Emission Standards for Pollutants in Urban Sewage Treatment Plants (《城鎮污水處理廠污染物排放標準》) (GB18918-2002), to ensure no negative impact on the natural ecology and human health, and only discharge at designated locations specified in the agreement signed with the government.

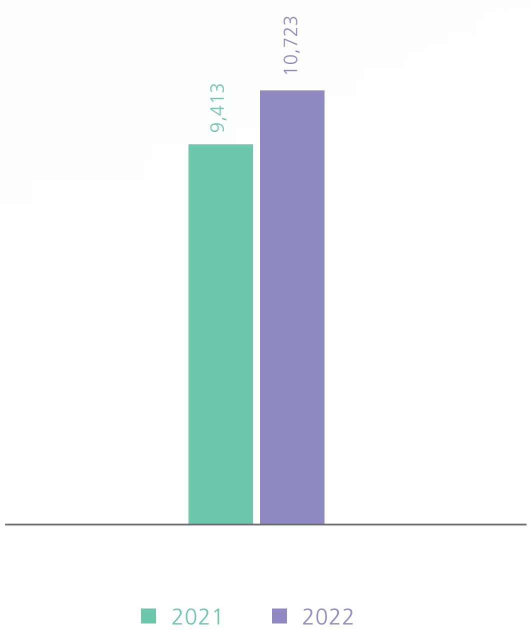
Our sewage treatment plants have obtained the approval of the "Environmental Assessment of Construction Projects" (《建設項目環境評價》) and the "Environmental Protection Acceptance of Construction Projects " (《建設項目環境保護驗收》), and have met all national environmental protection standards during the construction phase. We do not directly discharge the pollutants specified in the Environmental Protection Tax Law of the People's Republic of China and receive tax exemptions and reductions in accordance with the regulations. During the Reporting Period, all treated wastewater was discharged to rivers, oceans or used for landscaping, amounting to 63,162,766 tonnes in total.

Yichun Fangke Sewage Treatment Company Limited* operated Yichun Sewage Treatment Plant and Mingyue Mountain Wentang Sewage Treatment Plant under the build-operate-transfer (BOT) model, which play an important role in treating domestic wastewater in Yichun City's central urban area and Mingyue Mountain Wentang. We actively promote waste recycling and explore the use and value of sludge. Yichun Fangke Sewage Treatment Company Limited* utilizes sludge dehydration technology to reduce the target moisture content of sludge from 80% to 40%. The dewatered sludge is sent to qualified third parties for further treatment.

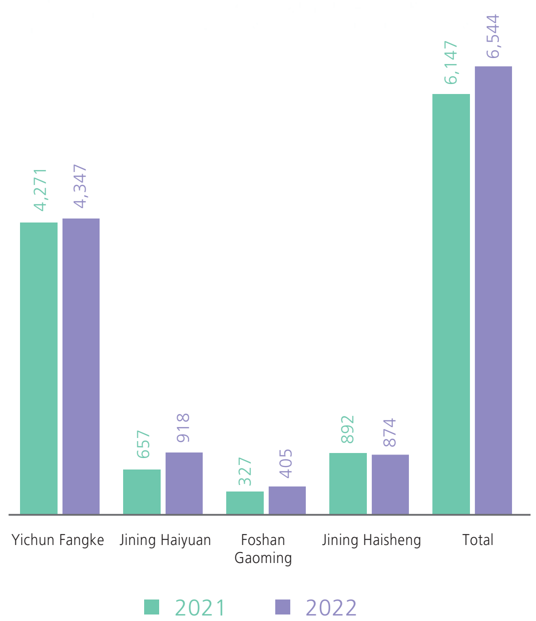
Total volume (tonnes) of treated sludge discharged by various disposal methods as of 31 December 2022:

| Incineration | Brick-making | Composting | Vermicompost | Total |
|---|---|---|---|---|
| 19,419 | 1,130 | 13,967 | 5,899 | 40,415 |

**Reduction in COD (tonnes)**




**Volume of Sewage Treated by Projects (10,000 tonnes)**

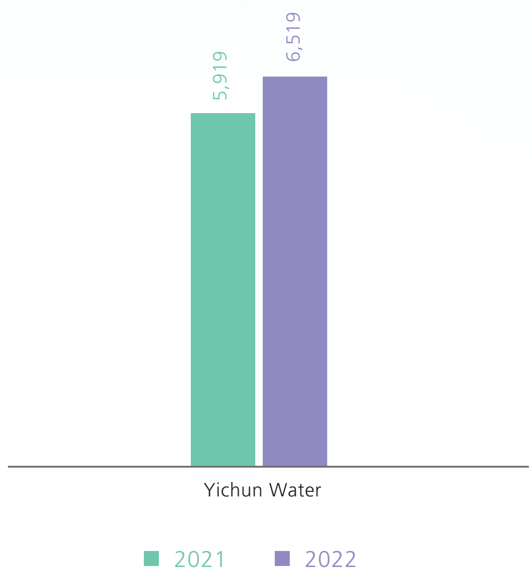


## Water Supply

Providing quality and reliable tap water to the public is an important mission of the Group. With the spirit of "endless dedication to water supply and customer service", we adopt a customer-oriented approach to ensure the quality and safety of urban water supply. We also strictly comply with water resource-related laws and regulations, including but not limited to the Water Law of the People's Republic of China (《中華人民共和國水法》). In 2022, we had 1 water supply project located in Yichun, Jiangxi, with a total annual water supply of approximately 65,186,186 tonnes.

During the Reporting Period, the Wenbifeng Water Plant's new integrated water purification facility was officially put into operation by Yichun Water Industry Group Co., Ltd.*. The newly built 20,000 tonnes/day integrated water purification system at the Wenbifeng Water Plant has increased the city's water supply capacity to 260,000 tonnes, continuously enhancing its water supply security capabilities. Yichun Water Industry Group Co., Ltd.* will continue to understand the city's development needs and ensure water supply stability. In addition, to further meet the growing demand for domestic water, the expansion project of the clean water tank at the Leiqiao pumping station by Yichun Water Industry Group Co., Ltd.* has been completed and put into operation during the Reporting Period, increasing the total water storage capacity of the Leiqiao pumping station from 3,600 tonnes to 5,600 tonnes, providing an important safeguard for high-temperature water supply work.

**Volume of Water Supply by Project**
**(10,000 tonnes)**



### Water Safety

To ensure water safety for the public, we have implemented strict environmental hygiene management of the production processes at each water plant, and established and implemented four lines of defense for water quality monitoring in accordance with the "Urban Water Supply Regulations" (《城市供水條例》). This guarantees that the quality of the water supply meets the national standards for drinking water hygiene. During the Reporting Period, we were not aware of any material non-compliance with laws and regulations relating to product liability.

| | |
|---|---|
| **First line of defence:** | Various types of water storage equipment are regularly cleaned and disinfected to prevent water pollution. Sanitation protection areas for water source will be set up in the factories where necessary. It is strictly prohibited to build any facilities that may endanger water quality and sanitation and conduct activities that hinder the sanitation of water source and water quality. |
| **Second line of defence:** | We have set up the pressure measurement point of the pipe network to ensure that the pressure of the water supply pipe network complies with national standards. |
| **Third line of defence:** | We have established a timely temporary water termination notification system and a water meter installation system, which have greatly improved our service quality. We also regularly inspect and repair reservoirs, water diversion channels, water intakes, pumping stations, wells, water distribution networks, household water meters, water purification plants, public water stations, etc. Security guards are also arranged to monitor important areas of the water plant around the clock to ensure safe operation. |
| **Forth line of defence:** | We regularly commission third-party testing companies to conduct detailed water quality inspections at representative sampling points of the Company, including water intake point, water outlet points, frequent water taking points of the residents, as well as the ending point of the pipe network. The testing parameters include more than 30 different detection items such as colour, coliform, odour, oxygen demand, free residual chlorine, lead, etc. We have set up our own testing centre for some water supply projects to strengthen the supervision of water quality. |

The Group highly values the health conditions and knowledge of our employees. In terms of health issue, all staff engaged in water supply and management are required to obtain health certificates before starting work and are required to conduct health check once a year. No employee suffering from an illness which affects the sanitary of water supply shall engage in related works. In addition, we regularly train our employees and assist them to acquire more professional knowledge to improve their health and safety awareness, alertness, and operational skills.

**Yichun Water Affairs Water Quality Testing in Campus**

In September 2022, with the start of the new school year approaching, campus water facilities had been out of use for over a month, leading to stagnant water in pipeline facilities that can breed bacteria. To ensure the safety of campus water supply, Yichun Water Industry Group Co., Ltd.* took proactive action and conducted a "general physical examination" of campus water supply at major colleges and universities in the central urban area to ensure the safety of water quality inside and outside the campus.

Water quality testing mainly focused on sampling and testing of places where teachers and students concentrate their daily water usage, such as classrooms and cafeterias. At the same time, considering that the safety of water quality in the food and beverage shops outside the campus is also closely related to teachers and students, the Yichun Water Industry Group Co., Ltd.* also conducted random water quality testing on some of these establishments. The testing was conducted in strict accordance with the requirements of the "Sanitary Standard for Drinking Water" (GB5749-2006), with a focus on testing for coliform bacteria, total bacterial count, colour, turbidity, odour and taste, pH value, and oxygen consumption. The qualification rate for the tested water samples in this campus water quality inspection was 100%, and all test values met the national safety drinking water hygiene standards.

* *The English names are for identification purpose only.*

### Management of Water Supply Projects

The Group is committed to optimizing our management of water supply project management to ensure the safety of water supply system and public health. We have formulated the Project Management System and the Project Quality Management System. We regulate the project construction process in strict compliance with the "Water Pipeline Construction and Inspection Standards" (《給水排水管道工程施工及驗收規範》) (GB50268-2008), to promote coordination between departments and ensure smooth construction. The materials of the water pipeline are particularly important to the quality of water supply. We will only use the pipes that obtain product quality certificates or qualification certificates in conformity with the national standards such as "Polyethylene (PE) for Water Supply" (《給水用聚乙烯(PE)管材》) (GB/T13663). Some project companies use stainless steel pipes, pipes and fittings from suppliers that have passed ISO9001:2015 quality management system certification. During the Reporting Period, we were not aware of any material non-compliance with laws and regulations relating to product liability.

We have a strong repair team with our professional maintenance personnel of engineering department around the clock. Once receiving any leakage report, they will immediately rush to the site to conduct maintenance, to ensure the operations are in compliance with the requirements of the local authority for the management of water supply and water usage, and the water pressure is up to standard. To ensure employee safety, we strictly require all relevant staff to wear helmets and high-visibility clothing when conducting maintenance work, all relevant personnel. Meanwhile, warning signs and guard rails are in place to avoid accidents.

**Yichun Fangke Sewage Treatment Company Limited* Conducted Sewage Equipment Maintenance Work**

As the Labour Day holiday approaches, Yichun Fangke Sewage Treatment Company Limited* has organized and carried out maintenance work on its sewage treatment equipment to ensure normal operation and stable discharge during the holiday.

The company has improved and implemented the work system for operators to inspect and patrol their work positions, clearly defined the division of labour and responsibilities of production staff on duty and increased the inspection and monitoring of mechanical equipment. When problems are encountered, they are resolved in a timely manner. In recent days, the technical maintenance department has focused on inspecting power distribution facilities, coarse and fine grid machines, stable tank scraping and suction machines, residual sludge pumps, dosing pumps and other equipment according to the equipment operation situation. They have promptly registered and developed maintenance and technical renovation plans for safety hazards found during the inspection. These plans include a comprehensive inspection of the fine grid drum, replacement of worn pump parts, maintenance of the variable distribution system, and technical renovation of the remaining sludge pump in the biochemical pool. The optimization of the suction device in the stable tank has achieved good results, further increased the sludge concentration and effectively reducing the load on the stable tank.

Inspection personnel have worked tirelessly, overcoming difficulties and ensuring the normal operation of the sewage treatment equipment through practical actions.

**Yichun Water Industry Group Co., Ltd.* Launched a Major Emergency Repair Plan**

In July 2022, a water main pipe burst next to the Cuidiwan community on Zhongshan East Road in Yuanzhou District, causing a large amount of tap water to gush out. Upon receiving the report, Yichun Water Industry Group Co., Ltd.* immediately launched repair operations. It was reported that the construction unit involved was conducting a rainwater and sewage pipeline renovation project in that section of the road, and the excavator accidentally damaged the buried DN600 water supply main during operation. As it was during the peak water usage period, and considering that the pressure loss caused by the ruptured pipe would have a severe impact on the entire city's water supply network, Yichun Water Industry Group Co., Ltd.* immediately activated its emergency repair plan and mobilized personnel, machinery, and materials to the scene to repair the damaged pipeline. They also released a sudden water outage notice through WeChat and SMS platforms.

The repair personnel worked tirelessly in the muddy excavation pit, racing against time and taking turns to work. After more than 8 hours of hard work, the pipeline was successfully repaired and water supply was restored. Yichun Water Industry Group Co., Ltd.* called on all construction units to contact the company in advance and learn about the distribution of underground pipelines in detail before conducting excavation operations, to ensure safe construction and avoid causing major impacts on citizens' lives.

* *The English names are for identification purpose only.*

### Optimizing Customer Service

We strive to provide customers with effective and quality service. We adhere to the people-oriented spirit and continuously enhance our service quality. Some project companies also provide 24-hour customer service hotlines, coupled with the 12345 service hotline offered by the government, to enable customers to get assistance at any time. In addition, we have formulated the codes of customer service, job responsibilities and processes to further standardise and optimise customer service. We also set up relevant contingency plans for emergencies such as power outages of water plants, burst of main pipe and other natural disasters, to give employees clear instructions on how to deal with the issues and to cope with dangerous situation in a calm manner.

In addition, to provide customers with convenient ways to enquire about water use, they can pay water bills, make an inquiry and check corporate information, such as temporary water supply suspension notice, water fees schedule and water quality testing report and etc., via their WeChat public accounts set up by project companies. Our payment channels have also expanded to banks, Alipay and Mobile QuickPass. Besides, service counters have been created in the administrative services centre for the convenience of customers. We have designated personnel in the meter-reading department for handling complaints and following up the problems regarding water meter, water fee and others reported by the landlords, to ensure effective response to customers' needs and implementation of customer recommendations. During the Reporting Period, we did not receive any material complaint.

**Customer Service Workflow Diagram**

**Receive**

- Complaints from customers are received via hotlines of the Company and the government and are recorded in detail.

**Transfer**

- According to the priority, the complaints will be transferred to the head of departmental leaders for instructions.

**Handle**

- The complaints will be handled by relevant departments on a timely basis (3 working days).

**Return visit**

- Telephone return visits are made to follow up the situation and customer satisfaction, and the cases are reported in written form to head of departmental leaders via email for signature.

### Upgraded Service for a Heart-Warming Water Supply

In order to further improve the efficiency and service level of the water supply service hotline, and to provide users with better, more efficient, and convenient comprehensive hotline services, Yichun Water Affairs Group's 24-hour water supply service hotline has been upgraded. The water supply service hotline has now eliminated the voice navigation and implemented a direct number to our customer service staff, striving to create a convenient, efficient, and standardized water supply service.

With the expansion of the scope of water supply and the increase of water users, the number of consultations on various water-related issues continues to increase. To further increase the response rate of the water supply service hotline, Yichun Water Industry Group Co., Ltd.* has added multiple 24-hour call answering positions for its water supply hotline, ensuring smooth communication, and reducing waiting times for users. At the same time, Yichun Water Industry Group Co., Ltd.* will provide targeted business training to its call center personnel to ensure timely and professional handling of water usage inquiries from its customers.

To better arrange service time and meet diverse service needs of users, Yichun Water Industry Group Co., Ltd.* has tailored a "reservation service" for its users. This service schedules appointments at appropriate times according to user demands, providing timely and efficient service. By implementing the reservation service and work dispatching coordination, the group has alleviated short-term staffing shortages and reduced service disputes caused by long waiting times, achieving a win-win situation for service quality and user satisfaction.

To gain further insight into user demands, we will set up a "Leader Hotline Service Day". At that time, the department heads of Yichun Water Industry Group Co., Ltd.* will be responsible for answering the water supply hotline, providing on-site responses, or immediately arranging solutions to problems encountered by users. As a water supply service company, Yichun Water Industry Group Co., Ltd.* will continuously improve its service mechanism, optimize service details, extend service content, and enhance service levels.

### Yichun Water Affairs Strengthens the Business Climate by Listening to Local Businesses' Voices

To further optimize the business environment, improve the level of water supply services, and enhance enterprise satisfaction, in December 2022, the business commissioners of Yichun Water Industry Group Co., Ltd.* visited multiple enterprises in Yichun Economic and Technological Development Zone to ensure winter water supply for the companies.

During the winter visit to these enterprises, the business commissioners visited companies such as Guoxuan High-tech, Tianci New Materials, and Gaire New Energy. The commissioners gained a detailed understanding of the water demand for winter production and operation of these enterprises and advised them to prepare for cold weather and carry out necessary anti-freezing work for their water facilities. At the same time, the business commissioners left their contact information, enterprise handbooks, and other service materials to help these companies to get in touch with the relevant personnel promptly in case of water supply problems.

In 2022, the business commissioners of Yichun Water Industry Group Co., Ltd.* visited a total of 107 companies in the development zone and provided 104 door-to-door services, helping these enterprises solve 17 different water supply issues. Going forward, Yichun Water Industry Group Co., Ltd.* will continue to make visiting enterprises a routine task, strengthen communication with companies, widely listen to opinions and suggestions, and ensure effective implementation of optimizing and enhancing the business environment in water supply services.

* *The English names are for identification purpose only.*

## OUR ENVIRONMENT

The Group's water related services and renewable energy business are closely related to nature. Therefore, we are committed to reducing environmental impact and managing waste, wastewater, air emissions and noise produced during our operations and achieving green office through information technology. To effectively monitor and manage the impact on environment, our project companies have formulated comprehensive environmental management systems and adopted stringent emission standards, some of which have obtained ISO 14001 environmental management system certification. In addition, we have also set a series of additional environment targets to enable us to reduce our environmental impact during daily operation.

During the Reporting Period, we were not aware of any material non-compliance with relevant environmental protection laws and regulations by the Group, including but not limited to the "Environmental Protection Law of the People's Republic of China" (《中華人民共和國環境保護法》), the "Environmental Protection Tax Law of the People's Republic of China" (《中華人民共和國環境保護稅法》), the "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste" (《中華人民共和國固體廢棄物污染環境防治法》), the "Law of the People's Republic of China on the Prevention and Control of Water Pollution" (《中華人民共和國水污染防治法》), the "Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution" (《中華人民共和國大氣污染防治法》) and the "Law of the People's Republic of China on the Prevention and Control of Pollution from Environmental Noise" (《中華人民共和國環境噪聲污染防治法》).

| Scope | Environmental Targets |
|---|---|
| **Energy Use and Greenhouse Gas Emission Volume** | We are committed to reducing our own greenhouse gas emissions and electricity consumption through the implementation of energy saving measures and making good use of renewable resources. |
| **Water Management** | We are committed to focusing on reducing water consumption and recycling wastewater by constantly reviewing various water conservation measures. |
| **Solid Waste Management** | We are committed to reducing waste generation by promoting the concept of waste separation and recycling. |

### Climate Change

In recent years, more frequent extreme weather events have increased threats and risks faced by humanity, and climate change has become a global issue of concern. In view of this, the Group conducted ESG-related risk assessments to identify potential climate-related risks and regularly evaluate the effectiveness of existing countermeasures to enhance our resilience to climate risks. To improve energy efficiency, we also implemented a number of energy saving and emission reduction measures in our workplaces to reduce greenhouse gas emissions during our operations. In the future, we will continue to review the latest development of laws and regulations and regulatory requirements related to climate change to get well prepared for climate change mitigation efforts.

With the increase in frequency of extreme weather events, Yichun Fangke Sewage Treatment Company Limited* has formulated the "Emergency Plan for Flood Prevention and Control" and "Management Plan for Cold and Frost" under the principle of combining defense and rescue. We effectively dealt with internal flooding, external flooding, uncontrolled outflow of sewage and sludge caused by heavy rain, and minimize the potential safety risks of extreme weather to employees, and ensure the safe operation upon the sharp temperature drop in winter. We strengthen the daily maintenance and inspection of our potential safety hazards, biochemical ponds, sludge drying sheds, wall drains and drainage networks within plants according to the requirements under relevant documents issued by the flood control office of the municipal government, to identify and eliminate safety hazards in a timely manner. We will also strengthen our liaison with the meteorological and water conservancy authorities to keep abreast of weather warnings to ensure the sufficiency of anti-disaster materials and effectively cope with emergency situations.

Besides, we provide employees with safety education on lightning prevention knowledge by various means and organise quarterly inspections of lightning protection equipment to check whether the lightning protection facilities are in good condition, and immediately repair such facilities to ensure the normal operation of lightning protection equipment. We also provide heat protection and cooling materials (including heat protection medicine) for those staff working in an extremely hot weather, and place emergency medicine, heat protection medicine and herbal tea in the canteen, office and concierge rooms to enhance employees' ability to protect themselves.

#### Embracing the Low-carbon Era through Active Carbon Trading

To support the achievement of the national carbon peak and carbon neutrality goals, the Group actively promotes carbon credit trading in response to the "dual carbon" targets. The Group's renewable energy segment companies have actively pursued carbon reduction efforts by investing in renewable energy projects, which not only avoids greenhouse gas emissions from landfill waste but also replaces the use of fossil fuels, reducing greenhouse gas emissions. In 2022, the Group achieved a total of 2.036 million tonnes of carbon credit trading, generating an income of HK$60.39 million. Additionally, the Group has three Clean Development Mechanism (CDM) projects with a total carbon credit trading volume of approximately 1.2 million tonnes. The Group will continue to explore opportunities to develop the carbon trading market and achieve rapid development.

### Greenhouse Gas Emissions and Energy Management

The Group is committed to reducing greenhouse gas emission and electricity consumption through implementing energy saving measures and making good use of renewal resources. Our major source of greenhouse gases is electricity consumption. In addition, the Group's self-owned vehicles, equipment, backup power generation and canteens will also use diesel, gasoline, and natural gas for energy consumption. To reduce our reliance on fossil fuel, we replace traditional fuel use with renewable energy generation, and landfill gas power generation is given priority in landfill gas power generation projects. We will first cover the landfill for deodourisation. The landfill gas collected via gas wells and pipes is purified and utilised to effectively improve the environmental sanitation of the entire landfill, reduce the landfill safety hazards, solve the problem of landfill odour pollution and make good use of renewable resources.

Besides, we implemented a number of energy saving measures to reduce energy consumption in our daily operation, such as optimizing the power system and building design, purchasing imported energy saving production equipment and electrical appliances, and adjusting the sewage treatment equipment according to the quality of inflow water. We encourage our employees to develop the habit of saving electricity, such as turning off lights and controlling air-conditioning temperature. In future, we will explore ways to achieve energy saving and emission reduction in every operational stage.

| KPI[1] | Unit | 2022 | 2021 |
|---|---|---|---|
| Total Energy Consumption | MWh | 509,793.46 | 623,658.62 |
| Purchased Electricity | MWh | 41,820.20 | 41,601.48 |
| Petrol | MWh | 741.09 | 792.93 |
| Diesel | MWh | 672.65 | 803.84 |
| Liquefied Petroleum Gas | MWh | 57.46 | 1,360.10 |
| Natural Gas | MWh | 11.79 | – |
| Landfill Gas | MWh | 466,490.28 | 579,005.37 |
| Others | MWh | – | 94.90 |
| Total Energy Consumption Intensity | KWh/thousand HKD | 0.42 | 0.57 |

Note:

1. Reporting scope of environmental data in this Report includes 1 water supply project company (2021: 2), 4 sewage treatment companies (2021: 4) and 9 renewable energy companies (2021: 9).

The Group's air emission directly generated from our operations mainly comes from electricity generators, landfill gas flares, different types of vehicles and canteen stoves. Air emission emitted from generators is treated by denitrification equipment devices and will be emitted only if it meets the emission limits in the "Emission Standard of Air Pollutants for Boiler" (《鍋爐大氣 污染物排放標準》) (GB13271-2014). In the event of poor biogas quality, shutdown of landfill gas recycling device or when the gas supply is in excess, we will use the flare system of the landfill gas electricity generation project to incinerate the biogas in high temperature, burn down or treat the hazardous substances in a harmless manner. Air emission that meets the "Integrated Emission Standard for Air Pollutants" (《大氣污染物綜合排放標準》) (GB16297-1996) will be discharged through a specific exhaust pipe. Relevant project companies have also obtained the discharge permits issued by the government. To ensure compliance, we conduct regular check-ups for prevention and control of air pollution in daily operation. We also entrust third-party environmental monitoring institutions to conduct on-site monitoring of atmospheric pollution. In case of any non-compliance, corrective actions will be taken based on the "Procedure of Non-compliance, Corrective and Preventive Action". To reduce fume emission from cooking, we installed fume purifying devices in the canteen.

| Indicator[1] | Unit | 2022 | 2021 |
|---|---|---|---|
| Total Greenhouse Gas (GHG) Emissions | Tonnes of $CO_2$ equivalent | **25,916.28** | 26,180.82 |
| Direct Emissions (Scope 1) | Tonnes of $CO_2$ equivalent | **422.94** | 823.03 |
| Indirect Emissions (Scope 2) | Tonnes of $CO_2$ equivalent | **25,514.50** | 25,381.06 |
| GHG Removal (Tree Plantation) (Scope 1) | Tonnes of $CO_2$ equivalent | **21.16** | 23.28 |
| GHG Emissions (Biogenic)[2,3] | Tonnes of $CO_2$ equivalent | **277,301.67** | 270,956.92 |
| Total GHG Emissions Intensity (Scope 1 & 2)[4] | Tonnes of $CO_2$ equivalent/ thousand HKD | **0.02** | 0.02 |
| Nitrogen Oxides ($NO_x$)[3] | Kg | **380,552.69** | 371,952.59 |
| Sulphur Oxides ($SO_x$)[3] | Kg | **134,435.91** | 131,360.71 |
| Particulate Matter (PM)[3] | Kg | **32,172.99** | 31,448.89 |

Note:

1. Reporting scope of environmental data in this Report includes 1 water supply project company (2021: 2), 4 sewage treatment companies (2021: 4) and 9 renewable energy companies (2021: 9).

2. Biogenic emission represents GHG emission from landfill gas electricity generation, where the calculation relates to the volume of landfill gas used to produce the electricity sold.

3. Included landfill gas consumption for the generation of sold electricity.

4. Total GHG emission intensity (Scope 1 and 2) excludes biogenic emission. In Accordance with The Greenhouse Gas Protocol — A Corporate Accounting and Reporting Standard (Revised Edition), published by World Business Council for Sustainable Development and World Resources Institute, emissions data for direct GHG emissions from combustion of biomass or biofuels should be reported separately.

**Yichun Fangke Sewage Treatment Company Limited* Participates in the 2022 Public Institution Energy Conservation Promotion Week Event**

June 13-19, 2022 was the National Energy Conservation Publicity Week. To promote energy conservation, carbon reduction and green development concepts, and guide public officials to adopt a green and low-carbon lifestyle, the Yichun Comprehensive Administrative Law Enforcement Bureau launched activities for National Energy Conservation Publicity Week under the theme of "Green and Low-carbon, Leading the Way in Energy Conservation" and "Realizing the "Dual Carbon" Action Plan for a Sustainable Future Together " both online and offline.

Yichun Fangke Sewage Treatment Company Limited* invited all employees to actively participate in online training such as the "Public Institution Green and Low-Carbon Cloud Classroom" and the "Green and Low-Carbon Knowledge Quiz". They advocated for all employees to engage in low-carbon travel, and set requirements for indoor air conditioning temperatures not lower than 26 degrees Celsius in the summer and not higher than 20 degrees celsius in the winter. They also organized relevant personnel to participate in green recycling and low-carbon experience activities, and donated the company's waste electronic products, paper, fluorescent tubes, and other items for professional processing to achieve recycling.

### Wastewater Management in Renewable Energy Projects

The Group is responsible for landfill gas collection through the gas wells and pipes in the landfills in the landfill power generation project. Landfill operators are responsible for the sanitation of the landfills and the treatment of leachate. The leachate inside the gas well will flow to the waste through the wall of the well, and finally be drawn out through the drainage pipe, and sent directly to the leachate treatment facility of the landfill together with the condensate inside the gas pipe for treatment. In addition, our drainage and sewage pipes are constructed based on the principle of "rain and sewage diversion". The rainwater collected separately is discharged directly. The purpose of separating the collection of sewage and rainwater is to reduce sewage production. The condensate generated by the cooling tower will be recycled for our internal use. The domestic sewage treated by septic or leachate tanks will be transported to sewage treatment station of landfill or used for greening and fertilisation.

### Water Management

The Group is committed to constantly reviewing various water conservation measures, and focuses on reducing water use and recycling wastewater. We have implemented water conservation policies, installed low-flow water-saving devices, and eliminated outdated equipment with high water consumption. During the Reporting Period, we did not have any problems in sourcing water that is fit for purpose.

| Indicator[1] | Unit | 2022 | 2021 |
|---|---|---|---|
| Total Water Consumption | $m^3$ | **44,251.80** | 42,213.00 |
| Total Water Consumption Intensity | $m^3$/thousand HKD | **0.04** | 0.04 |

Note:

1. Reporting scope of environmental data in this Report includes 1 water supply project company (2021: 2), 4 sewage treatment companies (2021: 4) and 9 renewable energy companies (2021: 9).

**Optimizing Reclaimed Water Utilisation, Preserving Every Drop of Water Resource**

Yichun Fangke Sewage Treatment Company Limited* actively explored new ways of saving water and completed the reclaimed water recycling project. The water quality is between sewage and tap water. It is non-drinking water that can be reused within a certain range after urban sewage and wastewater have been purified to meet national standards. It can be used for landscaping irrigation, road cleaning, etc. This does not only improve the utilization rate of water resources, but also contain trace amounts of organic nutrients in the water, which is beneficial to promote plant growth, and can save costs compared to using tap water.

The disinfected reclaimed water is transported through pipelines to various areas within the plant for landscaping, plant irrigation, cooling, chemical preparation, membrane backwashing, and landscape pool replenishment. The project is able to save 3,000 tons of tap water per day, which translates to more than RMB100,000 in annual savings on water bills. This not only reduces production costs but also promotes the conservation of water resources.

### Noise Management

In our daily operations, the noise we generate mainly comes from the use of large machines such as generators, water pumps, and induction fans. To mitigate the impact of noise on the surrounding residents and ensure that the noise level in the factory area meets the Class II standard of the Emission Standard for Industrial Enterprises Noise at Boundary" (《工業企業廠界環境噪聲排放標準》) (GB12348-2008), we regularly maintain and repair equipment to ensure proper operation, and install mufflers on high-noise equipment. In addition, to reduce the noise generated by mechanical vibration, we install shock-absorbing pads between the equipment and the ground where possible.

### Solid Waste Management

We are committed to promoting the concept of waste separation and recycling to reduce waste production. Our solid waste is mainly general domestic refuse, food waste and hazardous waste generated in the production process. We identify hazardous waste, including waste oil, waste desulphurisation agent and sludge according to the "National Catalogue of Hazardous Wastes" (《國家危險廢物名錄》). To prevent hazardous waste from causing any unnecessary environmental pollution, we collect and store different categories of hazardous wastes in accordance with the "Standard for Pollution Control on Hazardous Waste Storage" (《危險廢物貯存污染控制標準》) (GB18597-2001), set up temporary liquid waste storage area and collection facilities that meet environmental requirements in the factory area, and entrust qualified hazardous waste collectors to dispose wastes to comply with the "Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Waste" (《中華人民共和國固體廢物污染環境防治法》) and other relevant laws and regulations. In addition, we conduct spot checks and supervise waste recyclers regularly to ensure recyclers properly recycle and dispose of waste.

For general solid waste, we store and dispose of recyclable and non-recyclable general waste according to the "Standard for Pollution Control on the Non-Hazardous Industrial Solid Waste Storage and Landfill" (《一般工業固體廢物儲存、處置場污染控制標準》) (GB18599-2001). Recyclable general waste such as metal, plastic, food waste, waste paper, etc., are sorted and then handed over to qualified recyclers to reduce waste generation. To continuously enhance management policy, our Environmental Management Team will review the waste management semi-annually to ensure proper waste handling.

| Indicator[1] | Unit | 2022 | 2021 |
|---|---|---|---|
| Total Hazardous Waste | Tonnes | 314.93 | 305.59 |
| Waste Oil and Waste Containing Oil | Tonnes | 145.32 | 164.44 |
| Waste Drum | Tonnes | 6.01 | 2.45 |
| Waste Activated Carbon | Tonnes | 36.42 | 10.97 |
| Catalyst | Tonnes | 12.18 | 16.52 |
| Waste Oil Compartment | Tonnes | 2.58 | 0.30 |
| Waste Lubricating Oil | Tonnes | 31.15 | 16.34 |
| Waste Lubricating Oil Drum | Tonnes | 0.12 | 0.20 |
| Waste Mineral Oil | Tonnes | 78.64 | 65.34 |
| Waste Denitration Catalyst | Tonnes | – | 7.56 |
| Desulfurization Medium | Tonnes | 2.50 | 21.47 |
| Total Hazardous Waste Intensity | Kg/thousand HKD | 0.26 | 0.28 |
| Total Non-Hazardous Waste | Tonnes | 65.06 | 85.52 |
| *Recycled* | | | |
| Food Waste | Tonnes | 19.00 | 25.00 |
| Paper | Tonnes | 0.60 | 0.16 |
| Other General Refuse | Tonnes | 4.50 | 6.52 |
| *Disposed* | | | |
| Food Waste | Tonnes | 25.21 | 34.48 |
| Paper | Tonnes | 0.20 | 0.26 |
| Other General Refuse | Tonnes | 15.55 | 19.40 |
| Total Non-Hazardous Waste Intensity | Kg/thousand HKD | 0.05 | 0.08 |

Note:

1. Reporting scope of environmental data in this Report includes 1 water supply project company (2021: 2), 4 sewage treatment companies (2021: 4) and 9 renewable energy companies (2021: 9).

## CARING FOR EMPLOYEES

Employees are a critical pillar in driving our pursuit of excellence in business. To foster mutual growth, we actively cultivate a comfortable and empowering work environment that enables our staff to continuously develop and realize their potential. During the Reporting Period, we were not aware of any violations of laws and regulations related to employment by the Group, including but not limited to the "Labour Law of the People's Republic of China" (《中華人民共和國勞動法》), the "Labour Contract Law of the People's Republic of China" (《中華人民共和國勞動合同法》), the "Social Insurance Law of the People's Republic of China" (《中華人民共和國社會保險法》) and the "Provisions on the Prohibition of Using Child Labour" (《禁止使用童工規定》).

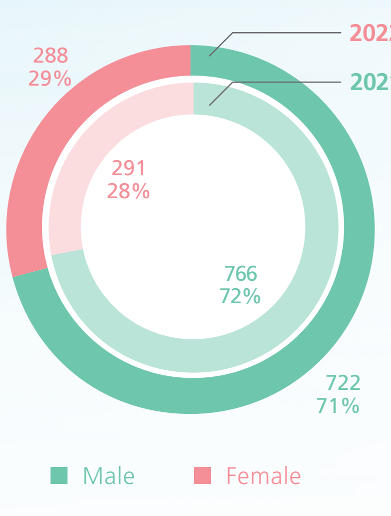
### Talent Recruitment

The Group is committed to protecting to the rights and interests of employees, and have developed relevant personnel management policy for each project company based on the "Labour Law of the People's Republic of China" (《中華人民共和國勞動法》), which clearly stipulate the operation procedures and regulations related to employee recruitment, resignation, promotion, salary, working hours, leave, etc. Also, we adopt a zero-tolerance attitude towards child labour and forced labour, and strictly implement the "Provisions on the Prohibition of Using Child Labour" (《禁止使用童工規定》) of the State Council. During recruitment, candidates are required to provide their identity documents, and if necessary, their residence registration and photos are required to be verified before further registration. Those candidates who have not obtained ID cards shall hold a certificate of over 16 years old approved by the police station where their residence is registered. Employees shall guarantee the authenticity, legality, and validity of the submitted documents, and shall not borrow or falsify the documents to deceive the Company. Otherwise, they will not be qualified for employment or their labour relationship with the Company will be terminated immediately. If any cases of child labour or forced labour are found, we will claim all the legal responsibilities to those who cause serious consequences. A special team will be set up to ensure the victims are adequately protected, and all their salaries are immediately settled. We will escort the child to his/her original place of residence and obtain the signature of the parent or guardian for confirmation.

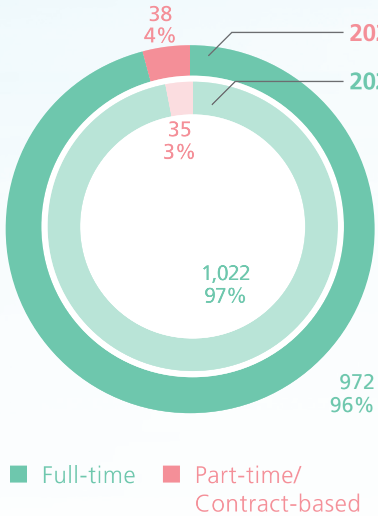
In order to attract talents, the Group recruits talents by various channels, including posting advertisements on newspapers, job boards, job markets, recruitment agencies, talent websites, internal promotions or referrals from co-workers. We hire talents in a fair, open, and transparent manner according to the capability and work experience of candidates, and ensure they are not discriminated in terms of race, religion, gender, marital status, sexual orientation, age, disability, etc. In addition, we sign Labour Contracts with all new employees within one month after they join the Company on a willing basis and have their social security paid. We will never recruit employees by forced or deceptive means such as seizing their ID cards or other valid documents. If necessary, the Supplement Agreement to Labour Contract and the Confidentiality Agreement will be signed at the same time. The Group's Employee Handbook detailly stated the corporate management policies, employee compensation, leaves, benefits, etc. If an employee is involved in a serious violation of the regulations, the Company is entitled to terminate the labour relationship with the employee in accordance with the Labour Law of the People's Republic of China and relevant regulations. The employee dismissed by the Company will not be given financial compensation other than wages.

As of 31 December 2022, the Group had 1,010 employees[7]; 288 are female employees which accounted for 29% of the total number of employees. All our employees are located in China (including Hong Kong).

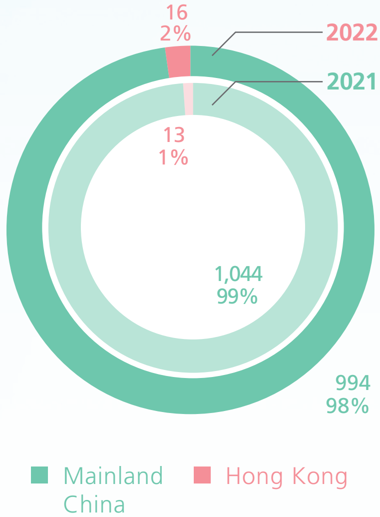
**Distribution of Employee By Gender**



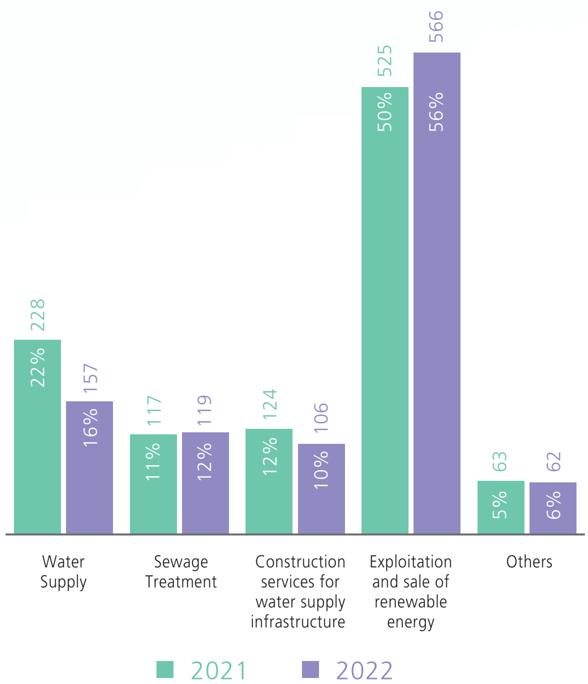

**Distribution of Employee By Employee Category**



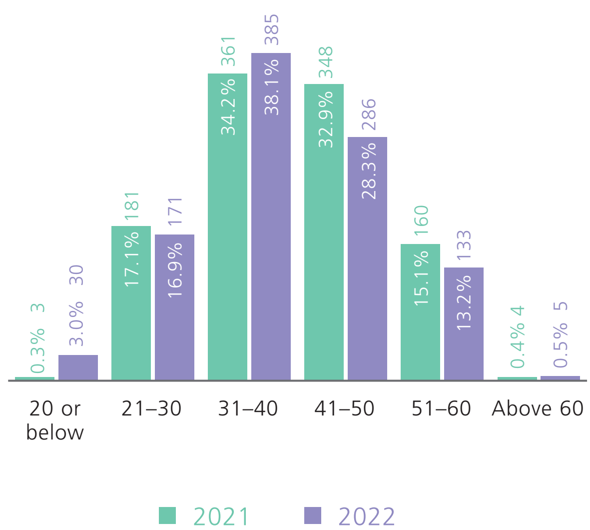

**Distribution of Employee By Region**




**Distribution of Employee By Business Segment**



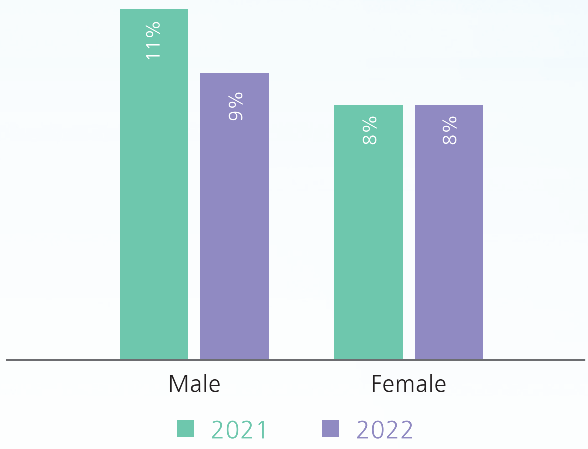

**Distribution of Employee By Age Group**



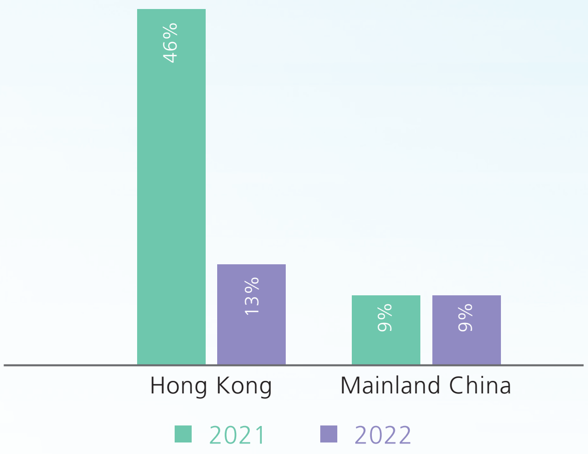

7 The data related to employees covers all employees of the Group and the scope of disclosure is consistent with that of the financial report.

During the Reporting Period, the staff turnover rate was 9%.

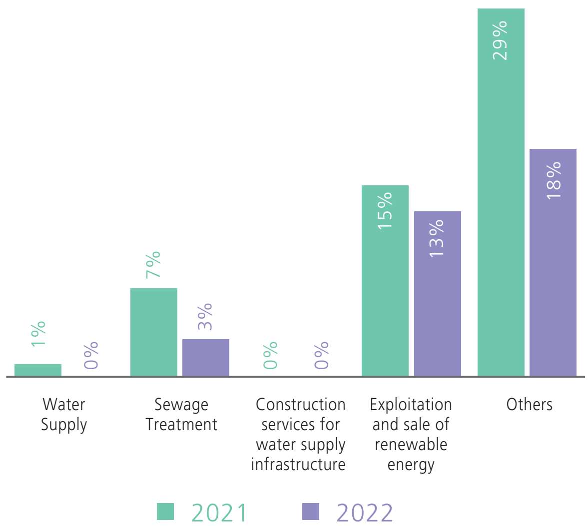
**Staff Turnover By Gender**



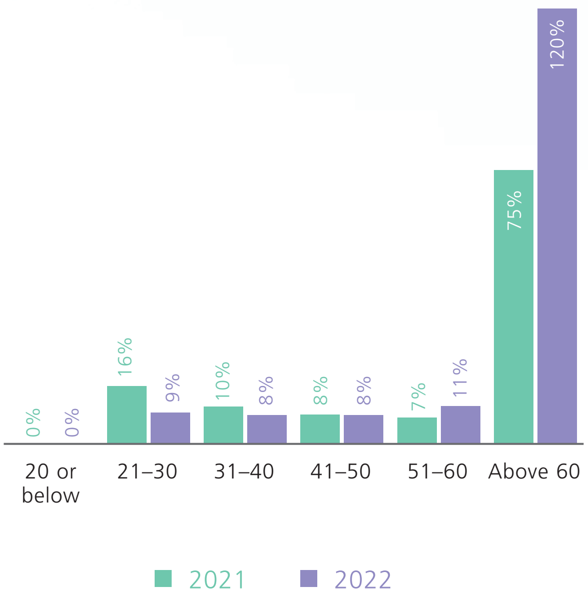

**Staff Turnover By Region**




**Staff Turnover By Business Segment**




**Staff Turnover By Age Group**



### Protection for Our Female Employees

The Group is committed to promoting a female-friendly workplace. We have a female employee protection policy to ensure that female employees will not be unreasonably dismissed due to pregnancy, maternity leave, breastfeeding, etc. and be able to get a basic salary on the basis of fair treatment. They will have equal opportunities in salary reviews, promotion, and work arrangements to protect their rights and interests. We will also make the necessary job transfers for pregnant employees to ensure their health and safety are well protected.

### Occupational Health and Safety

To strengthen the management of occupational health and safety, we have developed a system for safety production and education and emergency response plans and safe operating procedures to comply with the "Law of the People's Republic of China on the Prevention and Control of Occupational Diseases" (《中華人民共和國職業病防治法》) and the "Law of the People's Republic of China on Work Safety" (《中華人民共和國安全生產法》). We provided employees with work-related injury insurance, and equip personnel in special positions with masks, gloves, safety shoes, cotton coats and other protective equipment. The Group has designated personnel to conduct 24-hour patrolling. The production personnel of factory area inspect and organize fire drills regularly to prevent and eliminate hidden threats to safety in time. Each project company has an operation safety team in place, which is responsible for educating employees on safety production, formulating safety production and operation procedures, and supervising the implementation of safety procedures, to ensure protection of employee health.

The Group strictly abides by laws and regulations applicable to occupational health and safety, including but not limited to the "Fire Control Law of the People's Republic of China" (《中華人民共和國消防法》), the "Regulations on the Safety Administration of Dangerous Chemicals" (《危險化學品安全管理條例》) and the "Provisions on the Administration of Occupational Health at Workplaces" (《工作場所職業衛生管理規定》). During the Reporting Period, we were not aware of any material non-compliance with laws and regulations related to occupational health and safely. Also, in each of the past three years, there were no work-related fatalities occurred and the lost days due to work injury was 75 days.

Our project companies also implemented the following occupational health and safety measures:

- Regularly inspect fire safety equipment to reduce the risk of fire
- Appoint a dedicated person to monitor the use of open flames, welding, and other procedures
- Provide sufficient training to employees, for example, in some project companies, new employees must complete three levels of safety education courses, pass relevant tests, and obtain safety certificates before formal employment
- Require employees in special job categories to obtain special operation certificates
- Install safety warning signs in work areas
- Conduct health check-ups and occupational health examinations for employees at least every two years
- Regularly conduct various safety drills to enhance employees' emergency response capabilities
- Conduct weekly safety inspections to promptly improve problems
- Develop emergency response plans to handle various emergency situations such as chemical spills, electric shocks, gas accidents, equipment operation accidents, natural disasters, major casualties, power supply interruptions, fires, and serious accidents involving employees
- Send employees to external professional training programs in fire safety, hospitals, and other departments to ensure that they can evacuate and handle emergencies in an orderly manner
- Regularly inspect the food and health of the cafeteria, and regularly clean the cafeteria and dormitories to ensure the health of chefs and the freshness of food
- Prevent infectious diseases and control pests to ensure the health and safety of employees' food and drinks.

### Upholding Safety Production Law, Taking Responsibility as the First Priority

In order to promote the concept of safe development and establish the concept of safe production, Yichun Water Industry Group Co., Ltd.* actively carried out and participated in various forms of safety education and awareness activities during the "Safe Production Month" in June 2022. These efforts aimed to further enhance the safety awareness of our executives and employees and ensure the smooth implementation of safety production work.

Yichun Water Industry Group Co., Ltd.* organized and held a special training session on the new "Production Safety Law". The Party Secretary of the Yichun Water Industry Group Co., Ltd.* explained the similarities and differences between the old and new "Production Safety Law" in simple terms and combined practical case studies from warning education videos to vividly interpret the administrative, criminal, and civil responsibilities of safety managers and practitioners involved in work safety. The content of the entire training was rich, practical, targeted, and instructive.

To consolidate the learning outcomes of the participants, we also conducted a new safety law test, allowing employees to review the training content through the test and strengthen their knowledge of work safety. This effectively enhanced the level of preventing and resolving major safety risks, and resolutely prevented and curbed work safety accidents. We also conducted fire safety training and drills at the Chengbei pumping station. Firefighters explained fire safety knowledge and precautions to the employees in detail, enabling them to have a more detailed understanding of the use of firefighting equipment, and laying a solid foundation for fire prevention work.

### Water Plant Enhances Safety Measures with New Electronic Fencing System

As a crucial place to ensure the daily drinking water safety for residents, water plants play an important role. To further enhance the internal safety measures of water plants and ensure the safe operation of water supply production, Yichun Water Industry Group Co., Ltd.* has recently installed electronic fences on the perimeter walls of two water plants and built an intrusion prevention and security alarm system around the water plants. Currently, the system has been installed, tested, and put into use.

We have installed a set of four-line high-voltage nickel-chromium alloy wires on the perimeter walls of the plant area to form a protective system around the water plants. If anyone touches or illegally climbs over the fence, the electronic fence alarm system will automatically sound an alarm and transmit the signal to the water plant duty room and dispatch center, and staff can immediately stop the intrusion behavior and ensure the safety of the water plant. Compared to traditional wire mesh fences, the electronic fence is easier to maintain and dismantle in the later period.

With continuous innovation and reform, the implementation of the electronic fence system further enhances the security of the water production area and improves its ability to prevent terrorism. This investment in the security infrastructure will help prevent accidents in the production line and ensure the safe and smooth operation of the water plant.

## MITIGATION MEASURES TO COVID-19

The Group and its staff have been working hard on each position to provide uninterrupted services to the public. We have also adopted a series of countermeasures to stop the spread of the virus and ensure protection of employees' health and safety.

### Mitigation Measures

**01**

- Strengthen the disinfection and cleaning work of public area and facilities, regulrly provide employees with latest pandemic prevention information, conduct temperature check for visitors

**02**

- Promote online service and smart use of water, provide customers with contactless service to ensure safe water use of the public

**03**

- Strengthen the disinfection and cleaning of drinking water and water treatment facility to prevent spread of virus in the water treatment works and ensure drinking water safet

**04**

- Develop emergency response plan to enhance employees' capability to deal with emergency situations

**Everyone is Responsible for Epidemic Prevention and Control, Ensuring Water Safety around the Clock**

In November 2022, in the face of the re-emergence of the epidemic, Yichun Water Industry Group Co., Ltd.* is committed to ensuring water quality safety during the epidemic, and has increased the frequency of testing for raw water, factory water, pipeline water, and secondary water supply in the central urban area. This allows us to promptly identify any changes in water quality and adjust and optimize the water production process as necessary. While ensuring the safe water supply to the central urban area, we also actively participate in epidemic prevention and control work in various streets and communities, assisting in daily nucleic acid testing, supporting protective propaganda, material distribution, garbage removal, and other work to help build a solid barrier for epidemic prevention and control.

In addition, in May 2022, Yichun Fangke Sewage Treatment Company Limited* also safeguarded the health and safety of employees in all aspects, and implemented a series of measures to prevent virus transmission, including:

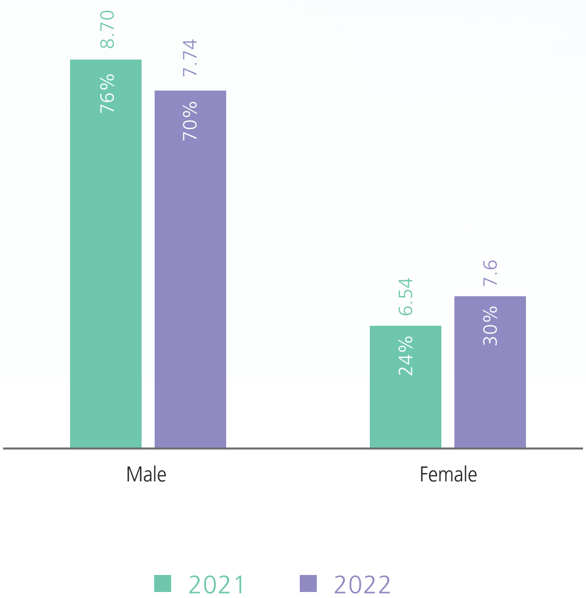
- Conducting temperature checks, scanning Guandong codes and travel codes for on-site employees
- Arranging logistics personnel to conduct comprehensive disinfection of the company's production areas and offices every day
- Arranging the company's canteen to provide separate meals to avoid overcrowding
- Conducting high-temperature disinfection of restaurant utensils and disinfecting restaurant tables and chairs daily

Prohibiting external personnel from entering the plant area. If production vehicles carrying pharmaceuticals need to enter the plant area, they must provide a 24-hour nucleic acid testing certificate, show Guandong codes and travel codes, wear masks, and register their temperature before entering.

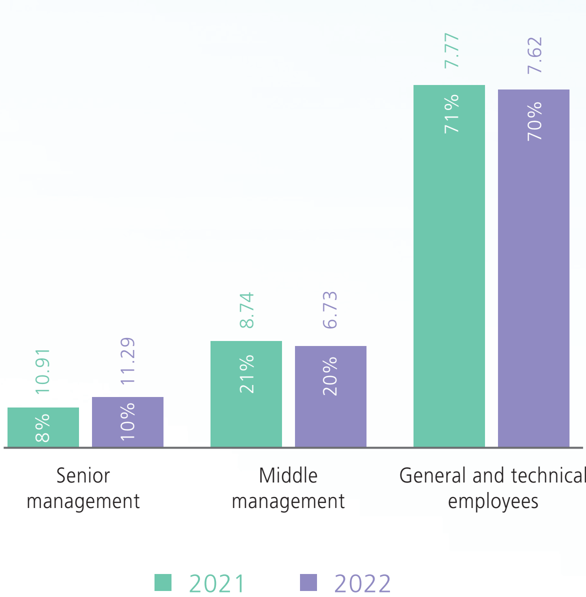
### Talent Trainings

The Group believes that talents are the most important asset of an enterprise. To cultivate and develop a high-level talent team, we hold a diversified training program every year to meet the professional knowledge and skills needs of our employees. Some of our project companies even have online schools, allowing employees to watch training videos anytime and anywhere to learn and review professional knowledge. In addition, we also appoint outstanding talents to participate in professional training institutions and regularly invite external professional trainers to impart different knowledge and skills to our employees. Some of our project companies also encourage employees to participate in external training related to the company's business needs and job nature through funding, promoting employees' self-learning.

**Average Training Hours and Percentage of Employees Trained By Gender**




**Average Training Hours and Percentage of Employees Trained By Employment Category**




| Employee Training | 2022 | 2021 |
|---|---|---|
| Total Training Hours | 8,460 | 9,428 |
| Average Training Hours per Employee | 7.70 | 8.11 |
| Percentage of Employees Trained | 66% | 99% |

**Yichun Fangke Sewage Treatment Company Limited* Organizes Seminar to Promote Wastewater Treatment Knowledge**

In July 2022, to enhance the professional skills of the wastewater industry personnel and better grasp relevant wastewater knowledge, Yichun Fangke Sewage Treatment Company Limited* invited Professor Gong Guoyong from the School of Life Sciences and Resource Environment at Yichun College to give a lecture on wastewater treatment related knowledge, to assist the company in promoting the integrated operation of Yichun City's sewage treatment facilities.

Professor Gong systematically explained to the employees the urban sewage treatment overview, deep sewage treatment technology, basic concepts of activated sludge method wastewater treatment, AAO process for urban domestic sewage treatment and abnormal process treatment methods, and detailed the factors and abnormal countermeasures of biological denitrification process and biological phosphorus removal process in the sewage treatment process, the causes and countermeasures of activated sludge expansion, and the significance of timely and scientific sludge discharge.

This training not only improved the employees' understanding and awareness of the significance and timely governance of urban sewage science, but also further enhanced their professional skills and qualities, resulting in substantial benefits for the company.

### Mutual Communication

The Group places a high value on communication with its employees. To this end, we have established open channels of communication and regularly conduct employee interviews and surveys to better understand their opinions and views, and enhance their sense of belonging. We also disseminate the latest management policies and operational strategies to all employees via email, meetings, and message releases. In addition, some of our subsidiary companies use WeChat public accounts to share the latest updates and industry news on a regular basis, enabling employees to stay up to date with the Group's latest developments.

### Employee Benefits

The Group is committed to creating a healthy and safe work environment for our employees. In addition to providing paid annual and statutory leave, we offer full-time employees benefits such as social security plans, maternity leave, bereavement leave, and sick leave, in accordance with legal requirements. Some of our subsidiaries also provide additional benefits such as employee dormitories, holiday allowances, travel allowances, communication allowances, and work meals based on their operations. In terms of salary, we follow the principle of fairness and determine or adjust salary based on factors such as the employee's education, work experience, abilities, qualifications, position, and actual performance. We also purchase commercial insurance for employees and their family members, and regularly arrange for employees to undergo health check-ups and special job-related medical examinations to protect their health as the first line of defence.

To promote work-life balance, we do not encourage overtime work. If a department requires employees to work overtime to meet production demands, we have established written regulations specifying that employees must not work more than 60 hours per week, and no more than 36 hours of overtime per month. We also ensure that employees receive at least 24 consecutive hours of rest after working for 6 consecutive days, and are paid overtime compensation in accordance with labour laws. Employees who wish to express their opinions can do so through our suggestion box, phone, or face-to-face meetings, and file complaints or suggestions. To protect the privacy and rights of complainants, all complaints will be kept strictly confidential without the complainant's consent.

**Yichun Water Industry Group Co., Ltd.* spreads warmth with visitation and consolation campaign during Lunar New Year**

In preparation for the upcoming Spring Festival and to show care and warmth towards employees in need, the General Manager of Yichun Water Industry Group Co., Ltd.* and some members of the management team conducted a meeting in January 2022, expressing their concern and offering New Year blessings, festival greetings, and financial aid to difficult employees.

After the meeting, company leaders also visited retired employees who are suffering from serious illnesses and disabilities to encourage them to face life with a positive attitude and remind them to report any difficulties in a timely manner, making them feel the warmth of the company family. The visitation activity not only bridged the gap between the company and its employees but also created a festive atmosphere. The company's warmth, friendly greetings, and sincere blessings made the difficult employees feel the warmth and care of the company family even more during the cold winter.

### Work Life Balance

We take a holistic approach to our employees' physical and mental health, and actively organize various recreational activities to relieve their daily work pressure. We hold an annual meeting and regularly host various recreational activities such as sports events, museum visits, and outdoor activities to strengthen the connection among our employees.

**Yichun Water Industry Group Co., Ltd.* Organizes 'Red Study Tour' Campaign**

In September 2022, Yichun Water Industry Group Co., Ltd.* organized a "Red Study Tour" activity for more than 30 party members to deepen the learning and education of party history, consolidate the achievements, and enhance the appeal, cohesion, and combat effectiveness of the party organization in accordance with the spirit of the 19th National Congress and the 19th National Congress of the Communist Party of China.

Accompanied by the tour guide's explanation, the party members carefully visited the pictures, exhibits, and introduction texts in the revolutionary exhibition hall of the museum, exchanging their thoughts and feelings with each other. They marveled at the revolutionary spirit of the martyrs who fought bloody battles, united to resist Japan, succeeded each other, and sacrificed themselves selflessly.

Upholding the red lineage of the revolution and undertaking the mission of strengthening the nation, this "Red Study Tour" activity allowed the employees to relive the magnificent revolutionary history and feel the heroic stories of the revolutionary predecessors. Participants expressed that they would take this opportunity to learn and comprehend the history of the Party, use the glorious traditions and good styles to strengthen their beliefs, cohesion, and action to turn the effects of studying party history and comprehending ideology into practical actions for real achievements and new developments.

* *The English names are for identification purpose only.*

## COMMUNITY CONTRIBUTION

We are committed to fulfilling our social and environmental responsibilities as a corporate citizen by utilizing our professional knowledge to serve the community and promote the importance of caring for society. Our contributions mainly focus on volunteer activities, environmental promotion, and community service, with the hope of leading our employees to give back to society through action and creating a harmonious and inclusive community. Here are our major community contribution efforts for the current year:

### Volunteer Activities

- **Yichun Water Industry Group Co., Ltd.*** carried out a voluntary activity with the theme of "Welcome the 20th Great Convenience Service into the Community". Based on its own position, it answered questions and answers for the masses, and publicized the common sense of water use to community residents from multiple angles. The activity distributed a total of more than 100 publicity materials and over 30 person-times of public consultation were received on site.

- **Yichun Water Industry Group Co., Ltd.*** A total of more than 80 staff members took the initiative to join the volunteer team. Under the leadership of party members and pioneers, they visited the central urban area, actively participated in the front-line epidemic prevention volunteer work, and served the citizens wholeheartedly.

### Promoting Environmental Protection

- **Yichun Fangke Sewage Treatment Company Limited*** carried out the "Green Code" environmental protection public welfare activity of exploring the secrets of sewage and unlocking Yichun "Green Code", attracting more than 50 teachers and students from the Compass Nature Tribe Reading Camp to strengthen their awareness of water conservation and environmental protection.

- **Yichun Fangke Sewage Treatment Company Limited*** launched the public open day of environmental protection facilities, and explained the planning of sewage collection pipe network in the central city to more than 30 teachers and students of Yuanshan School in Yichun City, so that students can understand environmental protection facilities and allow them to cherish water resources and raise environmental awareness.

- **Yichun Fangke Sewage Treatment Company Limited*** launched a government open day activity with the theme of "clean water and clear source, beautiful Yichun", allowing the public to visit the sewage treatment situation in the downtown area of Yichun with closer look, and gain an in-depth understanding of the daily work of sewage treatment companies, focusing on building a bridge of communication between the government and the public. Subsequently, the chairman of the company introduced the company's development to the public, promoted the concepts of energy conservation, emission reduction, and ecological environmental protection, and actively communicated and answered questions raised by citizen representatives.

### Community Care

- **Yichun Water Industry Group Co., Ltd.*** initiated the subscription initiative of Weai Charity Mooncakes to all employees, calling on employees to pay attention to vulnerable groups such as living alone, widowed elderly and left-behind children, and to help public welfare. With the extensive support of employees, a total of 143 employees participated and subscribed for 160 love mooncakes, with a total amount of more than RMB20,000 raised to help the poor.

**Yichun Fangke Sewage Treatment Company Limited* Launched the "Environmental Protection Net Distance" Community Volunteer Service Campaign**

In September 2022, Yichun Fangke Sewage Treatment Company Limited*. entered Xiujiang Yujing Community to carry out the "Environmental Protection Net Distance" voluntary service activity. The activities were carried out in three groups at the same time. One group set up publicity points in the square in the community, erected roll-up banners, answered questions for residents who came to consult and patiently explained the sewage treatment process. The other two mobile groups were responsible for conducting door-to-door publicity on environmental protection to the public, asking residents about their awareness on the sewage treatment industry, and providing advice to the public on how domestic wastewater can be recycled. For example, rice washing water can be used to wash vegetables, fruits, and bowls. Dishes, laundry waste water can be used to flush toilets, etc. The other group took the initiative to walk into the shops to distribute brochures on sewage treatment, reusable bags, and promote relevant knowledge.

This voluntary activity, through face-to-face publicity and communication with the masses, has increased the participation of the citizens in the sewage treatment industry. Citizens have expressed awareness of the importance of protecting water resources, and will start practicing low-carbon, green and energy-saving lifestyle, to build a civilized and beautiful Yichun to be a good environmental propagandist, leader and practitioner.

**Yichun Fangke Sewage Treatment Company Limited* Organized the National Day Environmental Protection Facilities Public Open Day**

As the National Day approached, in order to celebrate the 73rd anniversary of the founding of the People's Republic of China and create a strong festive atmosphere, more than 20 volunteers from Yuanzhou District Federation of Trade Unions and Yichun City "Home of Hope" entered Yichun Fangke Sewage Treatment Company Limited*. To carry out the public open day activities of green facilities to welcome the National Day.

Under the guidance of the lecturer, the public visited the biochemical pool, magnetic coagulation sedimentation tank, sodium hypochlorite tank, ultraviolet disinfection tank and other sewage treatment tanks and sludge dehydration workshop in an orderly manner, and experienced the magical process of sewage from turbid to clear at a "zero" distance , to witness how the purified clean water is discharged into the Yuan River through the pipeline. During the event, the lecturer also gave a detailed introduction to the visitors on the sewage treatment process, the scale of the plant, the data of inflow and outflow, and water quality discharge standards, and conducted a Q&A exchange with the visitors.

After the event, everyone said that this public day event was well organized and rich in content, which benefited people a lot and touched them deeply. In the future, they will pay more attention to water conservation, protect water resources, and protect the green water and green mountains of Yichun with practical actions.

* *The English names are for identification purpose only.*

## KEY ENVIRONMENTAL DATA

To further monitor our emission reduction efforts, we will continuously evaluate, record, and disclose greenhouse gas emissions and other environmental data related to our main carbon emission sources in our business operations. Using 2021 data as a benchmark, we will appropriately compare it with this year's data to effectively identify areas for improvement.

| Indicator[1, 2, 3] | Unit | 2022 | 2021 |
|---|---|---|---|
| Total Greenhouse Gas (GHG) Emissions | Tonnes of $CO_2$ equivalent | 25,916.28 | 26,180.82 |
| Direct Emissions (Scope 1) | Tonnes of $CO_2$ equivalent | 422.94 | 823.03 |
| Indirect Emissions (Scope 2) | Tonnes of $CO_2$ equivalent | 25,514.50 | 25,381.06 |
| GHG Removal (Tree Plantation) (Scope 1) | Tonnes of $CO_2$ equivalent | 21.16 | 23.28 |
| GHG Emissions (Biogenic)[4, 5] | Tonnes of $CO_2$ equivalent | 277,301.67 | 270,956.92 |
| Total GHG Emissions Intensity (Scope 1 & 2)[6] | Tonnes of $CO_2$ equivalent/ thousand HKD | 0.02 | 0.02 |
| Nitrogen Oxides ($NO_x$) | Kg | 380,552.69 | 371,952.59 |
| Sulphur Oxides ($SO_x$) | Kg | 134,435.91 | 131,360.71 |
| Particulate Matter (PM) | Kg | 32,172.99 | 31,448.89 |
| Total Energy Consumption[7] | MWh | 509,793.46 | 623,658.62 |
| Purchased Electricity | MWh | 41,820.20 | 41,601.48 |
| Petrol | MWh | 741.09 | 792.93 |
| Diesel | MWh | 672.65 | 803.84 |
| Liquified Petroleum Gas | MWh | 57.46 | 1,360.10 |
| Natural Gas | MWh | 11.79 | – |
| Landfill Gas[5] | MWh | 466,490.28 | 579,005.37 |
| Others | MWh | – | 94.90 |
| Total Energy Consumption Intensity | kWh/thousand HKD | 0.42 | 0.57 |
| Total Water Consumption | $m^3$ | 44,251.80 | 42,213.00 |
| Total Water Consumption Intensity | $m^3$/thousand HKD | 0.04 | 0.04 |

| Indicator[1, 2, 3] | Unit | 2022 | 2021 |
|---|---|---|---|
| Total Hazardous Waste | Tonnes | **314.93** | 305.59 |
| Waste Oil and Waste Containing Oil | Tonnes | **145.32** | 164.44 |
| Waste Drum | Tonnes | **6.01** | 2.45 |
| Waste Activated Carbon | Tonnes | **36.42** | 10.97 |
| Catalyst | Tonnes | **12.18** | 16.52 |
| Waste Oil Compartment | Tonnes | **2.58** | 0.3 |
| Waste Lubricating Oil | Tonnes | **31.15** | 16.34 |
| Waste Lubricating Oil Drum | Tonnes | **0.12** | 0.2 |
| Waste Mineral Oil | Tonnes | **78.64** | 65.34 |
| Waste Denitration Catalyst | Tonnes | **–** | 7.56 |
| Desulfurization Medium | Tonnes | **2.5** | 21.47 |
| Total Hazardous Waste Intensity | Kg/thousand HKD | **0.26** | 0.28 |
| Total Non-Hazardous Waste | Tonnes | **65.06** | 85.52 |
| *Recycled* | | | |
| Food Waste | Tonnes | **19.00** | 25.00 |
| Paper | Tonnes | **0.60** | 0.16 |
| Other General Refuse | Tonnes | **4.50** | 6.52 |
| *Disposed* | | | |
| Food Waste | Tonnes | **25.21** | 34.48 |
| Paper | Tonnes | **0.2** | 0.26 |
| Other General Refuse | Tonnes | **15.55** | 19.40 |
| Total Non-Hazardous Waste Intensity | Kg/thousand HKD | **0.05** | 0.08 |

Note:

1. Reporting scope of environmental data in this Report includes 1 water supply project company (2021: 2), 4 sewage treatment companies (2021: 4) and 9 renewable energy companies (2021: 9).

2. Due to our business nature, no packaging materials have been used.

3. Our reporting on air and greenhouse gases (GHG) emissions mainly base on the requirements in "How to prepare an ESG report" published by HKEX and "GHG Protocol Corporate Accounting and Reporting Standard (revised edition)" published by the World Business Council for Sustainable Development and World Resources Institute. Operational control approach is adopted when defining organisational boundary for the purpose of GHG accounting and reporting. GHG emissions is presented in carbon dioxide equivalent ($CO_2$ equivalent). Our scope 1 direct emissions cover GHG emissions directly produced by businesses owned or controlled by the Group, while scope 2 indirect emissions cover GHG emissions of indirect energy resulted from electricity (purchased or acquired) and refrigeration internally consumed by the Group.

4. Included landfill gas consumption for the generation of sold electricity.

5. Biogenic emission represents GHG emission from landfill gas electricity generation.

6. Total GHG emission intensity (Scope 1 and 2) excludes biogenic emission. In accordance with The Greenhouse Gas Protocol — A Corporate Accounting and Reporting Standard (Revised Edition), published by World Business Council for Sustainable Development and World Resources Institute, emissions data for direct GHG emissions from combustion of biomass or biofuels should be reported separately.

7. Our total energy consumption includes purchased electricity and fuels (non-renewable and renewable) consumed and the relevant conversion factors reference from "Technical Note: Conversion of fuel data to MWh" published by CDP.

## HKEx ESG REPORTING GUIDE CONTENT INDEX

| Indicator | | Chapter/Disclosure | Page |
|---|---|---|---|
| **A. Environmental** | | | |
| **Aspect A1: Emissions** | | | |
| General Disclosure<br><br>Information on:<br><br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | | Green business;<br>Our environment | 105-109;<br>116-122 |
| KPI A1.1 | The types of emissions and respective emissions data. | Key environmental data | 136-137 |
| KPI A1.2 | Direct and/or indirect energy greenhouse gas emissions in total (in tonnes) and intensity. | Key environmental data | 136-137 |
| KPI A1.3 | Total hazardous waste produced (in tonnes) and intensity. | Key environmental data | 136-137 |
| KPI A1.4 | Total non-hazardous waste produced (in tonnes) and intensity. | Key environmental data | 136-137 |
| KPI A1.5 | Description of emission target(s) set and steps taken to achieve them. | Green business;<br>Our environment | 105-109;<br>116-122 |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them. | Solid waste management | 121-122 |
| **Aspect A2: Use of Resources** | | | |
| General Disclosure<br><br>Policies on the efficient use of resources, including energy, water and other raw materials.<br><br>Note: Resources may be used in production, storage, transportation, construction, electronic equipment, etc. | | Green business;<br>Our environment | 105-109;<br>116-122 |
| KPI A2.1 | Direct and/or indirect energy consumption by type in total (kWh in '000s) and intensity | Key environmental data | 136-137 |
| KPI A2.2 | Water consumption in total and intensity | Key environmental data | 136-137 |
| KPI A2.3 | Description of energy use efficiency target(s) set and steps taken to achieve them. | Green business;<br>Our environment | 105-109;<br>116-122 |
| KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them. | Water management | 120-121 |
| KPI A2.5 | Total packaging material used for finished products, and if applicable, with reference to per unit produced. | Our business operations do not involve any packaging materials. | N/A |

| Indicator | | Chapter/Disclosure | Page |
|---|---|---|---|
| **Aspect A3: The Environment and Natural Resources** | | | |
| General Disclosure<br><br>Policies on minimizing the issuer's significant impact on the environment and natural resources | | Green business;<br>Our environment | 105-109;<br>116-122 |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Green business;<br>Our environment | 105-109;<br>116-122 |
| **Aspect A4: Climate Change** | | | |
| General disclosure<br><br>Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer. | | Climate change | 117 |
| KPI A4.1 | Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer. | Climate change | 117 |

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<tr><td colspan="4">Employment and Labour Practices</td></tr>
<tr><td colspan="4">Aspect B1: Employment</td></tr>
<tr><td colspan="2">General Disclosure<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.</td><td>Caring for employees</td><td>123-133</td></tr>
<tr><td>KPI B1.1</td><td>Total workforce by gender, employment type, age group and geographical region.</td><td>People management</td><td>124</td></tr>
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<tr><td colspan="2">General Disclosure<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.</td><td>Occupational health and safety</td><td>126-128</td></tr>
<tr><td>KPI B2.1</td><td>Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.</td><td>There were no work-related fatalities occurred during the Reporting Period</td><td>N/A</td></tr>
<tr><td>KPI B2.2</td><td>Lost days due to work injury.</td><td>During the reporting period, 75 days were lost due to work-related injuries.</td><td>N/A</td></tr>
<tr><td>KPI B2.3</td><td>Description of occupational health and safety measures adopted, and how they are implemented and monitored.</td><td>Occupational health and safety</td><td>126-128</td></tr>
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<tr><td>KPI B3.1</td><td>The percentage of employees trained by gender and employee category.</td><td>Employee trainings</td><td>131-132</td></tr>
<tr><td>KPI B3.2</td><td>The average training hours completed per employee by gender and employee category.</td><td>Employee trainings</td><td>131-132</td></tr>
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<tr><td colspan="2">General Disclosure<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.</td><td>People management; During the Reporting Period of 2022, no cases of child labor or forced labour were found within our operations.</td><td>N/A</td></tr>
<tr><td>KPI B4.1</td><td>Description of measures to review employment practices to avoid child and forced labour.</td><td>We review the "Recruitment Management Policy" annually to avoid the use of child labour and forced labour.</td><td>N/A</td></tr>
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| **Operating Practices** | | | |
| **Aspect B5: Supply Chain Management** | | | |
| General Disclosure<br><br>Policies on managing environmental and social risks of the supply chain. | | Supplier management | 104 |
| KPI B5.1 | Number of suppliers by geographical region. | As of 31 December 2022, we have a total of 1,043 suppliers, which are all located in Mainland China. | N/A |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | Supplier management; During the Reporting Period, we visited a number of 408 suppliers. | 104 |
| KPI B5.3 | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. | Supplier management | 104 |
| KPI B5.4 | Description of practices used to promote environmentally preferable products and service when selecting suppliers, and how they are implemented and monitored | Supplier management | 104 |
| **Aspect B6: Product Responsibility** | | | |
| General Disclosure<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | | Green business<br>During the Reporting Period, relevant laws and regulations were strictly followed to maintain the confidentiality of client information. No privacy complaints were received during this period. Our business does not involve advertising or labeling. | 105-115 |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Our business operations do not involve product recalls. | N/A |
| KPI B6.2 | Number of products and service related complaints received and how they are dealt with. | Optimizing customer service | 114-115 |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | Information protection | 104 |
| KPI B6.4 | Description of quality assurance process and recall procedures. | Green business<br>Our business operations do not involve product recalls. | 105-115 |
| KPI B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored. | Information protection | 104 |

| Indicator | | Chapter/Disclosure | Page |
|---|---|---|---|
| **Aspect B7: Anti-corruption** | | | |
| General Disclosure<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering | | Business integrity | 102 |
| KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | During the Reporting Period, we were not aware of any on-going litigation against us or our employees alleging corruption, bribery, extortion, fraud, or money laundering. | N/A |
| KPI B7.2 | Description of preventive measures and whistleblowing procedures, how they are implemented and monitored. | Business integrity;<br>Supplier management | 102;<br>104 |
| KPI B7.3 | Description of anti-corruption training provided to directors and staff. | Business integrity | 102 |
| **Community** | | | |
| **Aspect B8: Community Investment** | | | |
| General Disclosure<br><br>Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | | Community contribution | 134-135 |
| KPI B8.1 | Focus areas of contribution. | Community contribution | 134-135 |
| KPI B8.2 | Resources contributed to the focus area. | Community contribution | 134-135 |

國富浩華（香港）會計師事務所有限公司
**Crowe (HK) CPA Limited**
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA WATER INDUSTRY GROUP LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of China Water Industry Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 149 to 300, 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 profit or loss and other 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 ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Impairment assessment** | |
| The Group has approximately HK$548,020,000, HK$353,550,000, HK$604,387,000 and HK$162,029,000 of property, plant and equipment, right-of-use assets, operating concession intangible assets and other intangible assets respectively.<br><br>Their recoverable amount is based on an assessment of the greater of its fair value less costs of disposal and its value-in-use. Value-in-use is calculated as the net present value of estimated future cash flows.<br><br>The Group's assessment of impairment is a judgmental process which requires estimates concerning the estimated future cash flows and associated discount and growth rate based on management's view of future business prospects. | We assessed and challenged the impairment analysis prepared by the board of directors as outlined below:<br><br>With regard to the overall impairment assessment performed by the board of directors, we evaluated the design of internal controls in place to check that the Group's assets are valued appropriately including those controls in place to determine any asset impairments or impairment reversals. We also reviewed the assets not assessed by management for impairment indicators and no indicators were identified.<br><br>We assessed the qualification, independence and reputation of the independent external valuation expert. We evaluated the reasonableness of the management cash flow forecasts by comparing the assumptions made to internal and external data. We tested these assumptions by reference to third party documentation where available.<br><br>We challenged the key assumptions used in each impairment model and performed sensitivity analysis around key drivers of cash flow forecasts, including growth rates, operating costs, and expected life of assets.<br><br>We challenged the discount rate used to determine the present value by assessing the cost of capital for the Group and comparable organisations and considered them to be reasonable.<br><br>Furthermore, we obtained evidence to assess adequate historical accuracy in management's forecasting process. Based on our analysis and the analysis performed by the valuation experts, we did not identify any material issues with the valuation of the assets and goodwill, the accuracy of the impairment and the disclosures in the consolidated financial statements. |

## KEY AUDIT MATTERS *(Continued)*

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Revenue recognition** | |
| For water customers with water meters, the amount recognised depends upon the volume supplied, including an estimate of the sales value of units supplied between the date of the last meter reading and the year end. This is a key judgment because the estimated usage is based upon historical data and assumptions around consumption patterns. | We have reviewed the design and implementation of management's controls around this risk.<br><br>We have challenged the key assumptions and estimates made by management in recognising revenue.<br><br>We performed detailed analytical procedures by comparing revenue balance for the year against the total sales value of units supplied at the year ended.<br><br>We also assessed the adequacy of the Group's disclosures of its revenue recognition and other related disclosures. |

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

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

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors 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. This report is made solely to you, as a body, in accordance with our agreed terms of engagements, 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.

As part of an audit in accordance with HKSAs, we exercise professional judgment 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.

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

— 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.

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.

**Crowe (HK) CPA Limited**
*Certified Public Accountants*
Hong Kong, 30 March 2023

**Sze Chor Chun, Yvonne**
Practising Certificate Number P05049

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2022

| | Note | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 7 | **1,219,143** | 1,101,791 |
| **Cost of sales** | | **(848,209)** | (681,261) |
| Gross profit | | **370,934** | 420,530 |
| Other operating income and expenses | 9 | **71,297** | 79,056 |
| Loss on disposal of an associate | | **–** | (38,405) |
| Loss on disposal of a joint venture | | **(1,142)** | – |
| Gain on disposal of subsidiaries | | **531** | 45,712 |
| Selling and distribution expenses | | **(41,141)** | (46,722) |
| Administrative expenses | | **(196,282)** | (227,283) |
| Finance costs | 10 | **(67,535)** | (66,431) |
| Change in fair value of investment properties | 18 | **585** | 36 |
| Net gain on financial assets at fair value through profit or loss | | **696** | 15,895 |
| Impairment loss recognised on: | | | |
| property, plant and equipment | 16 | **(13,490)** | (30,799) |
| goodwill | 19 | **(22)** | (7,715) |
| other intangible assets | 19 | **(1,480)** | (4,913) |
| trade and other receivables, net | 26 | **(122,773)** | (69,404) |
| right-of-use assets | 16 | **(1,295)** | (13,097) |
| Share of (loss)/profit of associates | 22 | **(133)** | 32,411 |
| Share of profit of joint ventures | 23 | **784** | 640 |
| **(Loss)/profit before taxation** | | **(466)** | 89,511 |
| Income tax | 11 | **(29,253)** | (63,964) |
| **(Loss)/profit for the year** | 12 | **(29,719)** | 25,547 |
| **Attributable to:** | | | |
| Owners of the Company | | **(89,198)** | (44,020) |
| Non-controlling interests | | **59,479** | 69,567 |
| | | **(29,719)** | 25,547 |
| **Loss per share (HK cents):** | 15 | | |
| Basic | | **(3.88)** | (2.76) |
| Diluted | | **(3.88)** | (2.76) |

The notes on pages 158 to 300 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

| | Note | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| **(Loss)/profit for the year** | | **(29,719)** | 25,547 |
| **Other comprehensive (loss)/income for the year** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange difference on translation of financial statements of foreign operations | | | |
| Exchange difference arising during the year | | **(164,298)** | 51,739 |
| | | **(164,298)** | 51,739 |
| **Financial assets at fair value through other comprehensive income:** | | | |
| Net (loss)/gain arising on revaluation of financial assets at fair value through other comprehensive income during the year | | **(32)** | 702 |
| Release of reserve upon disposal of subsidiaries | | **1,929** | (23,933) |
| Release of reserve upon disposal of an associate | | **–** | (271) |
| Release of reserve upon disposal of a joint venture | | **(70)** | – |
| Release of reserve upon deregistration of subsidiaries | | **(97)** | – |
| Share of other comprehensive (loss)/income of associates | 22 | **(236)** | 950 |
| Share of other comprehensive loss of joint ventures | 23 | **(1,956)** | (638) |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Gain on revaluation of investment properties upon transfer from property, plant and equipment | | **1,249** | 2,299 |
| Deferred tax liabilities arising on gain on revaluation of investment properties | | **(312)** | (575) |
| | | **937** | 1,724 |
| **Other comprehensive (loss)/income for the year, net of income tax** | | **(163,823)** | 30,273 |
| **Total comprehensive (loss)/income for the year** | | **(193,542)** | 55,820 |
| **Attributable to:** | | | |
| Owners of the Company | | **(222,027)** | (37,353) |
| Non-controlling interests | | **28,485** | 93,173 |
| | | **(193,542)** | 55,820 |

The notes on pages 158 to 300 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

| | Note | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **548,020** | 811,682 |
| Deposits paid for acquisition of property, plant and equipment | | **153,929** | 5,708 |
| Deposits paid for acquisition of subsidiaries | | **–** | 19,790 |
| Right-of-use assets | 16 | **353,550** | 424,584 |
| Operating concessions | 17 | **604,387** | 606,271 |
| Receivables under service concession arrangements | 17 | **10,795** | 14,481 |
| Investment properties | 18 | **213,679** | 12,280 |
| Other intangible assets | 19 | **162,029** | 177,770 |
| Financial assets at fair value through other comprehensive income | 20 | **3,843** | 4,071 |
| Interests in associates | 22 | **2,483** | 2,852 |
| Interests in joint ventures | 23 | **21,512** | 23,831 |
| Deferred tax assets | 36 | **2,513** | 739 |
| Deposits and prepayments | 26 | **18,960** | 18,960 |
| | | **2,095,700** | 2,123,019 |
| **Current assets** | | | |
| Inventories | 24 | **67,055** | 278,729 |
| Receivables under service concession arrangements | 17 | **2,459** | 3,076 |
| Financial assets at fair value through profit or loss | 20 | **30,115** | 16,687 |
| Trade and other receivables | 26 | **938,981** | 1,050,110 |
| Contract assets | 25 | **63,513** | 42,908 |
| Cash held by financial institutions | 27 | **596** | 147 |
| Bank balances and cash | 27 | **183,851** | 291,211 |
| Amounts due from non-controlling shareholders of subsidiaries | 33 | **2,889** | – |
| Amounts due from associates | 33 | **4,196** | 4,585 |
| | | **1,293,655** | 1,687,453 |
| Assets held for sale | 28 | **74,153** | 51,395 |
| | | **1,367,808** | 1,738,848 |
| **Current liabilities** | | | |
| Trade and other payables | 29 | **487,823** | 577,073 |
| Contract liabilities | 25 | **135,822** | 373,170 |
| Bank borrowings | 30 | **60,602** | 73,833 |
| Other loans | 31 | **184,519** | 365,733 |
| Lease liabilities | 32 | **123,380** | 117,501 |
| Amounts due to non-controlling shareholders of subsidiaries | 33 | **–** | 329 |
| Deposits received from disposal of equity interest in subsidiary | | **–** | 12,231 |
| Tax payables | | **27,858** | 22,216 |
| | | **1,020,004** | 1,542,086 |
| Liabilities directly associated with the assets held for sale | 28 | **27,955** | 11 |
| | | **1,047,959** | 1,542,097 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

| | Note | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| **Net current assets** | | **319,849** | 196,751 |
| **Total assets less current liabilities** | | **2,415,549** | 2,319,770 |
| **Capital and reserves** | | | |
| Share capital | 34(b) | **28,736** | 798,270 |
| Share premium and reserves | | **1,366,904** | 571,969 |
| **Equity attributable to owners of the Company** | | **1,395,640** | 1,370,239 |
| Non-controlling interests | | **506,778** | 555,627 |
| **TOTAL EQUITY** | | **1,902,418** | 1,925,866 |
| **Non-current liabilities** | | | |
| Trade and other payables | 29 | **21,371** | – |
| Bank borrowings | 30 | **223,755** | 105,886 |
| Other loans | 31 | **16,506** | 15,844 |
| Lease liabilities | 32 | **161,135** | 171,060 |
| Government grants | 35 | **33,784** | 38,382 |
| Deferred tax liabilities | 36 | **56,580** | 62,732 |
| | | **513,131** | 393,904 |
| | | **2,415,549** | 2,319,770 |

Approved and authorised for issue by the board of directors on 30 March 2023.

**Mr. Zhu Yongjun**
*Director*

**Ms. Chu Yin Yin Georgiana**
*Director*

The notes on pages 158 to 300 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 (note 34(b)) | Share premium HK$'000 (note 34(c)) | Revaluation reserve HK$'000 (note 34(c)) | Translation reserve HK$'000 (note 34(c)) | Reserve fund HK$'000 (note 34(c)) | Fair value reserve (non-recycling) HK$'000 (note 34(c)) | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| **Balance at 1 January 2021** | 798,270 | 954,318 | 11,846 | 18,473 | 136,910 | (3,891) | (508,334) | 1,407,592 | 793,357 | 2,200,949 |
| **Changes in equity for 2021:** | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | (44,020) | (44,020) | 69,567 | 25,547 |
| Release of reserve upon disposal of subsidiaries | – | – | (11,846) | (23,933) | – | – | 11,846 | (23,933) | – | (23,933) |
| Release of reserve upon disposal of an associate | – | – | – | (271) | – | – | – | (271) | – | (271) |
| Other comprehensive income for the year: | | | | | | | | | | |
| Gain on revaluation of investment property upon transfer from property, plant and equipment | – | – | 1,172 | – | – | – | – | 1,172 | 1,127 | 2,299 |
| Deferred tax arising from revaluation on investment property | – | – | (293) | – | – | – | – | (293) | (282) | (575) |
| Exchange difference arising on translation | – | – | – | 28,978 | – | – | – | 28,978 | 22,761 | 51,739 |
| Share of other comprehensive income of associates | – | – | – | 950 | – | – | – | 950 | – | 950 |
| Share of other comprehensive loss of joint ventures | – | – | – | (638) | – | – | – | (638) | – | (638) |
| Fair value loss on financial assets at fair value through other comprehensive income | – | – | – | – | – | 702 | – | 702 | – | 702 |
| **Total comprehensive income for the year** | – | – | (10,967) | 5,086 | – | 702 | (32,174) | (37,353) | 93,173 | 55,820 |
| Capital contribution from non-controlling shareholders | – | – | – | – | – | – | – | – | 7,567 | 7,567 |
| Dividends paid to non-controlling shareholders | – | – | – | – | – | – | – | – | – | – |
| Disposal of subsidiaries | – | – | – | – | (38,720) | – | 38,720 | – | (338,470) | (338,470) |
| Transfers to reserve fund | – | – | – | – | 27,322 | – | (27,322) | – | – | – |
| At 31 December 2021 | 798,270 | 954,318 | 879 | 23,559 | 125,512 | (3,189) | (529,110) | 1,370,239 | 555,627 | 1,925,866 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 (note 34(b)) | Share premium HK$'000 (note 34(c)) | Revaluation reserve HK$'000 (note 34(c)) | Translation reserve HK$'000 (note 34(c)) | Reserve fund HK$'000 (note 34c)) | Fair value reserve (non-recycling) HK$'000 (note 34(c)) | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| **Balance at 1 January 2022** | **798,270** | **954,318** | **879** | **23,559** | **125,512** | **(3,189)** | **(529,110)** | **1,370,239** | **555,627** | **1,925,866** |
| **Changes in equity for 2022:** | | | | | | | | | | |
| Loss for the year | – | – | – | – | – | – | (89,198) | (89,198) | 59,479 | (29,719) |
| Release of reserve upon disposal of subsidiaries | – | – | – | 1,929 | – | – | – | 1,929 | – | 1,929 |
| Release of reserve upon disposal of a joint venture | – | – | – | (70) | – | – | – | (70) | – | (70) |
| Release of reserve upon deregistration of subsidiaries | – | – | – | (97) | – | – | – | (97) | – | (97) |
| Other comprehensive income for the year: | | | | | | | | | | |
| Gain on revaluation of investment property upon transfer from property, plant and equipment | – | – | 1,201 | – | – | – | – | 1,201 | 48 | 1,249 |
| Deferred tax liabilities arising from revaluation on investment property | – | – | (300) | – | – | – | – | (300) | (12) | (312) |
| Exchange difference arising on translation | – | – | – | (133,268) | – | – | – | (133,268) | (31,030) | (164,298) |
| Share of other comprehensive loss of associates | – | – | – | (236) | – | – | – | (236) | – | (236) |
| Share of other comprehensive loss of joint ventures | – | – | – | (1,956) | – | – | – | (1,956) | – | (1,956) |
| Fair value loss on financial assets at fair value through other comprehensive income | – | – | – | – | – | (32) | – | (32) | – | (32) |
| **Total comprehensive loss for the year** | – | – | 901 | (133,698) | – | (32) | (89,198) | (222,027) | 28,485 | (193,542) |
| Capital contribution from non-controlling shareholders | – | – | – | – | – | – | – | – | 1,517 | 1,517 |
| Dividends paid to non-controlling shareholders | – | – | – | – | – | – | – | – | (55,929) | (55,929) |
| Disposal of subsidiaries | – | – | – | – | (2,098) | – | 2,098 | – | (37,087) | (37,087) |
| Capital reduction | (782,305) | 123,835 | – | – | – | – | 658,470 | – | – | – |
| Issue of new share under placing | 3,192 | 76,608 | – | – | – | – | – | 79,800 | – | 79,800 |
| Issue of shares upon right issue | 9,579 | 158,049 | – | – | – | – | – | 167,628 | – | 167,628 |
| Transfers to reserve fund | – | – | – | – | 19,001 | – | (19,001) | – | – | – |
| Transfer of fair value reserve upon the disposal of financial assets at fair value through other comprehensive income | – | – | – | – | – | 110 | (110) | – | – | – |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | 14,165 | 14,165 |
| **At 31 December 2022** | **28,736** | **1,312,810** | **1,780** | **(110,139)** | **142,415** | **(3,111)** | **23,149** | **1,395,640** | **506,778** | **1,902,418** |

The notes on pages 158 to 300 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| **Operating activities** | | |
| (Loss)/profit before taxation | **(466)** | 89,511 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **74,658** | 56,204 |
| Depreciation of right-of-use assets | **50,663** | 45,031 |
| Amortisation of concession intangible assets | **51,005** | 51,162 |
| Amortisation of other intangible assets | **21,787** | 25,128 |
| Impairment loss recognised on: | | |
| — property, plant and equipment | **13,490** | 30,799 |
| — goodwill | **22** | 7,715 |
| — other intangible assets | **1,480** | 4,913 |
| — trade and other receivables, net | **122,773** | 69,404 |
| — right-of-use assets | **1,295** | 13,097 |
| Write off of: | | |
| — Property, plant and equipment | **18,372** | – |
| — Right-of-use assets | **6,328** | – |
| Change in fair value of investment properties | **(585)** | (36) |
| Finance costs | **67,535** | 66,431 |
| Interest income | **(9,541)** | (6,044) |
| Government grant income | **(4,218)** | (11,616) |
| (Gain)/loss on disposal of property, plant and equipment, net | **(116)** | 372 |
| Net gain on financial assets at fair value through profit or loss | **(696)** | (15,895) |
| Loss on disposal of concession intangible assets | **114** | 405 |
| Loss on lease modification | **131** | – |
| Share of loss/(profit) of associates | **133** | (32,411) |
| Share of profit of joint ventures | **(784)** | (640) |
| Net gain on disposal of subsidiaries | **(531)** | (45,712) |
| Net loss on disposal of associates | **–** | 38,405 |
| Net loss on disposal of joint venture | **1,142** | – |
| Loss on loan set off | **–** | 593 |
| Changes in working capital: | | |
| Decrease/(increase) in inventories | **195,057** | (139,003) |
| Increase in trade and other receivables | **(24,658)** | (123,207) |
| Decrease in receivables under service concession arrangements | **4,303** | 2,900 |
| Increase in contract assets | **(38,455)** | (37,779) |
| Increase in trade and other payables | **11,697** | 151,895 |
| (Decrease)/increase in contract liabilities | **(187,912)** | 47,187 |
| **Cash generated from operations** | **374,023** | 288,809 |
| Income taxes paid | **(28,712)** | (69,148) |
| **Net cash generated from operating activities** | **345,311** | 219,661 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **Investing activities** | | |
| Purchase of property, plant and equipment | **(89,298)** | (172,199) |
| Purchase of right-of-use assets | **(1,981)** | (3,635) |
| Deposits paid for acquisition of right-of-use assets | **–** | (36,003) |
| Deposits paid for acquisition of property, plant and equipment | **(155,463)** | (2,566) |
| Proceeds from disposal of property, plant and equipment | **2,452** | 3,739 |
| Proceeds from disposal of operation concessions | **16** | 43 |
| Acquisition of operating concessions | **(101,300)** | (60,087) |
| Acquisition of other intangible assets | **(101)** | (132) |
| Proceeds from disposal of financial assets at fair value through other comprehensive income | **196** | – |
| Proceeds from disposal of financial assets at fair value through profit or loss | **3,855** | 27,128 |
| Purchase of financial assets at fair value through profit or loss | **(18,643)** | (3,614) |
| Cash outflow from disposal of subsidiaries | **(102,584)** | – |
| Proceeds from disposal of associates | **–** | 223,274 |
| Acquisition of subsidiaries, net of cash acquired | **(31,540)** | – |
| Deposits paid for acquisition of subsidiary | **–** | (19,494) |
| Interest received | **9,541** | 6,044 |
| Loans to third parties | **–** | (111,187) |
| Repayment of loans to third parties | **–** | 37,228 |
| Deposit received from disposal of equity interest in subsidiary | **–** | 12,231 |
| Advances to associates | **388** | 8,338 |
| Government grants received | **2,816** | 20,939 |
| **Net cash used in investing activities** | **(481,646)** | (69,953) |

FOR THE YEAR ENDED 31 DECEMBER 2022

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **Financing activities** | | |
| Proceeds from new bank borrowings and other loans | **202,978** | 79,842 |
| Proceeds from issue of new shares under placing | **79,800** | – |
| Proceeds from issue of new shares upon rights issue | **167,628** | – |
| Repayment of bank borrowings and other loans | **(302,195)** | (322,359) |
| Repayment of loans from third parties | **(7,986)** | (205,265) |
| Repayment of loans from related parties | **(205,000)** | – |
| Decrease in amounts due to non-controlling shareholders | **(3,774)** | – |
| Capital contribution from non-controlling shareholders | **1,517** | 7,567 |
| Increase in lease liabilities | **186,280** | 153,170 |
| Decrease in amounts due to joint ventures | **–** | (5,863) |
| Capital element of lease rentals paid | **(201,663)** | (142,758) |
| Interest element of lease rentals paid | **(23,561)** | (21,107) |
| Loans from third parties | **209,968** | 18 |
| Loans from related parties | **52,000** | 240,000 |
| Interest paid | **(57,297)** | (54,129) |
| Dividend paid to non-controlling shareholders | **(55,929)** | – |
| **Net cash generated from/(used in) financing activities** | **42,766** | (270,884) |
| **Net decrease in cash and cash equivalents** | **(93,569)** | (121,176) |
| **Cash and cash equivalents at 1 January** | **291,358** | 432,654 |
| **Effect of foreign exchange rates changes** | **(13,342)** | (20,120) |
| **Cash and cash equivalents at 31 December** | **187,447** | 291,358 |
| **Analysis of the balance of cash and cash equivalents** | | |
| Cash held by financial institutions | **596** | 147 |
| Bank balances and cash | **183,851** | 291,211 |
| **Cash and cash equivalents at 31 December** | **184,447** | 291,358 |

The notes on pages 158 to 300 form part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 1. GENERAL

China Water Industry Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries (together referred to as the "Group"), the Group's interests in associates and joint ventures. These consolidated financial statements are presented in Hong Kong dollars ("HK$"). Other than those subsidiaries established in the People's Republic of China (the "PRC") and Indonesia, whose functional currency is Renminbi ("RMB") and Rupiah respectively, the functional currency of the Company and its subsidiaries is HK$.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 21.

## 2. CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") to these consolidated financial statements for the current accounting period for the first time:

| | |
|---|---|
| Amendments to HKFRS 3 | Reference to the Conceptual Framework |
| Amendment to HKFRS 16 | COVID-19-Related Rent Concessions beyond 30 June 2021 |
| Amendments to HKAS 16 | Property, Plant and Equipment — Proceeds before Intended Use |
| Amendments to HKAS 37 | Onerous Contracts — Cost of Fulfilling a Contract |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018–2020 |

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### Amendments to HKFRS 3 Reference to the Conceptual Framework

The Group has applied the amendments to business combinations for which the acquisition date was on or after 1 January 2022. The amendments update a reference in HKFRS 3 *Business Combinations* so that it refers to the *Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the "Conceptual Framework") instead of *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting 2010* issued in October 2010), add a requirement that, for transactions and events within the scope of HKAS 37 or HK(IFRIC)-Int 21, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination and add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments in the current year has had no impact on the Group's consolidated financial statements.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### Amendment to HKFRS 16 COVID-19-Related Rent Concessions beyond 30 June 2021

The Group has applied the Amendment to HKFRS 16 *COVID-19-Related Rent Concessions beyond 30 June 2021* retrospectively for the first time in the current year. The amendment extends the availability of the practical expedient in paragraph 46A of HKFRS 16 *Leases* ("HKFRS 16") by one year so that the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The application of the amendments in the current year has had no impact on the Group's consolidated financial statements.

### Amendments to HKAS 16 Property, Plant and Equipment: Proceeds before Intended Use

The amendments prohibit an entity from deducting the proceeds from selling items produced before that asset is available for use from the cost of an item of property, plant and equipment. Instead, the sales proceeds and the related costs should be included in profit and loss. The cost of the items is measured in accordance with HKAS 2.

The application of the amendments in the current year has had no impact on the Group's consolidated financial statements.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Basis of preparation of the financial statements

The consolidated financial statements have been prepared on the historical cost basis, except for the following assets that are measured at fair value, as explained in the accounting policies set out below:

— investment properties, including interests in leasehold land and buildings held as investment property where the Group is the registered owner of the property interest (see note 3(i));

— investments in equity securities (see note 3(n)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 3(af)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Business combinations or asset acquisitions

*Optional concentration test*

The Group can elect to apply an optional concentration test, on a transaction- by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

*Asset acquisitions*

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

*Business combinations*

A business is an integrated set of activities and assets which include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition related costs are generally recognised in profit or loss as incurred.

For business combinations in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the "Conceptual Framework") except for transactions and events within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ("HKAS 37") or HK(IFRIC)-Int 21 *Levies* ("HK(IFRIC)-Int 21"), in which the Group applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Business combinations or asset acquisitions *(Continued)*

*Business combinations (Continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets and liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes ("HKAS 12") and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date;

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Business combinations or asset acquisitions *(Continued)*

*Business combinations (Continued)*

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that does not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9 *Financial Instruments* ("HKFRS 9") would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

### (d) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses (note 3(o)(ii)), if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than on operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash generating units). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Goodwill *(Continued)*

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

### (e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the elements of control.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) Subsidiaries and non-controlling interests *(Continued)*

*Changes in the Group's interests in existing subsidiaries*

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment losses (note 3(o)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

### (f) Associates and joint ventures

The Group is a party of joint arrangement when it exercises joint control over arrangement by acting collectively with other parties and decisions about the relevant activities require unanimous consent of the parties sharing control. The joint arrangement is either a joint operation or a joint venture depending on the rights and obligations of the parties to the arrangement.

In relation to interest in joint operations, the Group recognises: (i) its assets, including its share of any assets held jointly, (ii) liabilities, including its share of any liabilities incurred jointly, (iii) revenue from the sale of its share of the output arising from the joint operation, (iv) its share of the revenue from the sale of the output by the joint operations, and (v) its expenses, including its share of any expenses incurred jointly.

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Associates and joint ventures *(Continued)*

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The financial statements of an associate and a joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition date excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment (after reassessment), the Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the ECL model to such other long-term interests where applicable (see note 3(o)).

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

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.

When the Group increases its ownership interest in an associate or a joint venture but the Group continues to use the equity method, goodwill is recognised at acquisition date if there is excess of the consideration paid over the share of carrying amount of net assets attributable to the additional interest in associate or joint venture acquired. Any excess of share of carrying amount of net assets attributable to the additional interest in associate or joint venture acquired over the consideration paid is recognised in the profit or loss in the period in which the additional interest is acquired.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Associates and joint ventures *(Continued)*

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

### (g) Property, plant and equipment

The following items of property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses (see note 3(o)(ii)):

— interests in leasehold land and buildings where the Group is the registered owner of the property interest (see note 3(l));

— right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and

— items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 3(ac)).

Depreciation is calculated to write off the cost of items of property, plant and equipment (other than construction in progress) less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | Over the shorter of the term of the lease, or 30 years |
| Plant and machinery | 3 to 10 years |
| Leasehold improvements | Over the shorter of the term of the lease, or 5 to 10 years |
| Motor vehicles | 5 to 8 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Historical cost includes expenditure that is directly attributable to the acquisition of the items.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Property, plant and equipment *(Continued)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are recognised in profit or loss during the reporting period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain or loss arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognised in profit or loss. The cost of those items is measured in accordance with the measurement requirements of HKAS 2 *Inventories* ("HKAS 2"). Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

### (h) Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the depreciation of right-of-use assets provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment loss (note 3(o)(ii)). Depreciation of buildings commences when they are available for use (that is, when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 3(ac)) to earn rental income and/or for capital appreciation. These includes land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at its fair value. Gains or losses arising from changes in the fair value of an investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

For a transfer from investment property to owner-occupied property, the deemed cost of a property for subsequent accounting is its carrying amount at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment" up to the date of change in use.

### (j) Concession intangible assets

When the Group has a right to charge for usage of concession infrastructure, it recognises concession intangible assets at fair value upon initial recognition. The concession intangible assets representing water supply and sewage treatment operating rights are carried at cost less accumulated amortisation and any accumulated impairment losses (note 3(o)(ii)). At the end of the concession period, the Group either needs to dispose of the water supply and sewage treatment infrastructure or transfer these assets to the local government.

The concession intangible assets are amortised to write off their cost over their expected useful lives or the remaining concession period, whichever is shorter, using an amortisation method which reflects the pattern in which their future economic benefits are expected to be consumed. Concession intangible assets is amortised on a straight-line basis.

Costs in relation to the day-to-day servicing, repair and maintenance of the water supply and sewage treatment infrastructures are recognised as expenses in the periods in which they are incurred.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Concession intangible assets *(Continued)*

*Consideration given by the grantor*

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out in note 3(n) 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.

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

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

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

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

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

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

*Operating concessions*

Operating concessions representing the rights to operate sewage and reclaimed water treatment and water distribution plants are stated at cost less accumulated amortization and any accumulated impairment losses (note 3(o)(ii)). Amortisation is provided on the straight-line basis over the respective periods of the operating concessions grants to the Group of 25 to 30 years.

*Exclusive rights*

The Company and its subsidiaries acquired the exclusive rights of collection and utilisation of landfill gas and rights of sewage emission in connection with the acquisition of the companies.

The exclusive rights were initially recognised at fair value at the acquisition date. The rights have an original period ranging from 10 to 25 years, respectively. These rights, together with exclusive rights acquired separately with finite period (note 19), are carried at cost less accumulated amortisation and any accumulated impairment losses (note 3(o)(ii)).

The exclusive rights of collection and utilisation of landfill gas are amortised to write off their cost, over the above terms of the operating rights on a straight-line basis.

### (l) Leasehold land and buildings for own use

When the Group makes payments for a property interest which includes both land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Construction contracts

A contract with a customer is classified by the Group as a construction contract when the contract relates to work on construction or upgrade services of infrastructure under a service concession arrangement under the control of the customer and therefore the group's construction activities create or enhance an asset under the customer's control.

When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised progressively over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs.

The likelihood of the group earning contractual bonuses for early completion or suffering contractual penalties for late completion are taken into account in making these estimates, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised in accordance with the policy set out in note 3(ae).

### (n) Classification and subsequent measurement of financial assets

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 6(d). These investments are subsequently accounted for as follows, depending on their classification.

Financial assets that meet the following conditions are subsequently measured at amortised cost:

— the financial asset is held within a business model whose objective is to collect contractual cash flows; and

— the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (n) Classification and subsequent measurement of financial assets *(Continued)*

Financial assets that meet the following conditions are subsequently measured at FVOCI:

— the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

— the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVPL.

*Amortised cost and interest income*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (that is, assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (n) Classification and subsequent measurement of financial assets *(Continued)*

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

*Equity investments*

An investment in equity securities is classified as fair value at profit or loss (FVPL) unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at fair value through other comprehensive income (FVOCI) (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 3(aa).

### (o) Credit losses and impairment of assets

*(i) Credit losses from financial instruments and contract assets*

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables, receivables under service concession arrangements, amounts due from associates and joint ventures and loans to third parties, which are held for the collection of contractual cash flows which represented solely payment of principal and interest);

— contract assets as defined in HKFRS 15; and

— financial guarantee contracts.

Other financial assets measured at fair value, including equity securities measured at FVPL and equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) Credit losses and impairment of assets *(Continued)*

*(i) Credit losses from financial instruments and contract assets (Continued)*

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (that is, the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof; and

— variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) Credit losses and impairment of assets *(Continued)*

*(i) Credit losses from financial instruments and contract assets (Continued)*

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due unless the Group has reasonable and supportable that a more lagging default criterion is more appropriate. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

The Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments, with the exception of trade receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) Credit losses and impairment of assets *(Continued)*

#### *(i) Credit losses from financial instruments and contract assets (Continued)*

Basis of calculation of interest income

Interest income recognised in accordance with note 3(aa) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (that is, the gross carrying amount less loss allowance) of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or past due event;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) Credit losses and impairment of assets *(Continued)*

*(ii) Impairment of non-financial assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment, including right-of-use assets;

— goodwill;

— concession intangible assets;

— other intangible assets;

— deposits and prepayments; and

— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value-in-use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (that is, a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis or to the smallest group of cash-generating units if otherwise.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) Credit losses and impairment of assets *(Continued)*

*(ii) Impairment of non-financial assets (Continued)*

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value-in-use (if determinable).

The Group assesses whether there is objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment.

— Reversal of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

*(iii) Credit losses from financial guarantees issued*

Financial guarantees are contracts that require the issuer (that is, the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) Credit losses and impairment of assets *(Continued)*

*(iii) Credit losses from financial guarantees issued (Continued)*

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the carrying amount carried in "trade and other payables" in respect of the guarantees (that is, the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 3(o)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

*(iv) Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 3(o)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (p) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

*(i) Properties held for/under development for sale*

The cost of properties held for/under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads and borrowing costs capitalised. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

*(ii) Trading goods*

Cost is calculated using the weighted average method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price for inventories in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (q) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 3(aa)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECLs) in accordance with the policy set out in note 3(o)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 3(r)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 3(aa)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 3(r)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 3(aa)).

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 3(q)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost, using the effective interest method, less allowance for ECL (see note 3(o)(i)).

### (s) Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and financial institutions and on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash as defined above. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 3(o)(i).

Cash at bank excludes bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash.

### (t) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

### (u) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (v) Borrowings

Borrowings are measured initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost, using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 3(ad)).

### (w) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 3(o)(iii), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

### (x) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is re-measured. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

### (y) Equity-settled share-based payment transactions

*(i) Share options granted to employees*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in equity (share options reserve). The fair value is measured at grant date, without taking into consideration of all non-market vesting conditions taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share options reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share options reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share options reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to accumulated losses).

*(ii) Share options granted to eligible persons*

Share options issued in exchange for services are measured at fair values of services received. The fair values of services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (z) Other employee benefits

*(i) Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

The subsidiaries in the PRC participate in the Central Pension Scheme (the "CPS") operated by the PRC government for all of their staff. The subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Payments to the CPS are recognised as expenses as they fall due in accordance with the rules of the CPS.

*(ii) Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

### (aa) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are included in non-current liabilities as deferred government grants in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (ab) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant accounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting year, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary difference, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same year as the expected reversal of the deductible temporary difference or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a year, or years, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the company controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 3(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the properties are depreciable and are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the properties over time, rather than through sale.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (ac) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (ac) Revenue and other income *(Continued)*

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, 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 with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

Revenue arising from water supply is recognised based on water supplied as recorded by meter readings during the year.

Revenue from sewage treatment is recognised based on actual sewage treated from meter readings during the year.

Water supply related installation and construction income is recognised when services are rendered and income can be measured reliably.

Revenue from long-term construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (note 3(m)).

Revenue from the construction of water supply and sewage treatment plants under service concession agreements 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 in 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.

Sales of electricity from the biogas power plant are recognised when electricity is generated and transmitted.

Tariff adjustment represents subsidy received and receivable from the local government authorities in respect of the Group's power generation business. Tariff adjustment is recognised at its fair value where there is reasonable assurance that the additional tariff will be received and the Group will comply with all attached conditions, if any.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (ac) Revenue and other income *(Continued)*

Sales and distribution of natural gas are recognised when goods are delivered to the customers.

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities (see note 3(q)).

Service income, consultancy fee, handling charges and cleaning income are recognised when services are provided.

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to the gross carrying amount of the financial assets. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 3(o)(i)).

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful life of the related asset/ deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (ad) Foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates and are not re-translated. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars ("HK$") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into the presentation currency of the Group (that is, HK$) at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

### (ae) Leased assets

At inception of a contract, the Group assesses whether the 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (ae) Leased assets *(Continued)*

#### *(i) As a lessee*

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments (less any lease incentives receivables) payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred. Lease payments also include amounts expected to be payable by the Group under residual value guarantees; the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. Except for that which is classified as investment property and measured at fair value, right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from COVID19-related rent concessions in which the Group applied the practical expedient.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (ae) Leased assets *(Continued)*

*(i) As a lessee (Continued)*

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost. Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of HKFRS 16. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

The Group presents right-of-use assets that do not meet the definition of investment properties and lease liabilities separately in the consolidated statement of financial position.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (ae) Leased assets *(Continued)*

*(ii) As a lessor*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

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. The rental income from operating leases is recognised in accordance with note 3(ae).

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

When the Group is an intermediate lessor, the sub-lease is classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 3(ae)(i), then the Group classifies the sub-lease as an operating lease.

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. For rent concession under which the Group legally releases the lessee from its obligation to make specifically identified lease payments, of which some of these lease payments are contractually due but not paid and some of them are not yet contractually due, the Group accounts for the portions which have been recognised as operating lease receivables (i.e. the lease payments which are contractually due but not paid) by applying the ECL and derecognition requirements under HKFRS 9 and applies lease modification requirements for the forgiven lease payments that the Group has not recognised (i.e. the lease payments which are not yet contractually due) as at the effective date of modification.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (af) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (ag) Provisions, contingent liabilities and onerous contracts

*(i) Provisions and contingent liabilities*

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

*(ii) Onerous contracts*

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of fulfilling with the contract.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (ah) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, or in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 3.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (ai) Related parties

(a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (aj) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Company's board of directors for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### (ak) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## 4. ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### (a) Critical accounting judgements

*(i) Classification of interests in leasehold land and buildings held for own use*

In accordance with HKAS 16, Property, plant and equipment, the Group chooses to apply either the cost model or the revaluation model as its accounting policy for items of property, plant and equipment held for own use on a class-by-class basis. In applying this policy, the Group has concluded that its registered ownership interests in leasehold properties and the right to use other properties leased under tenancy agreements are two separate groupings of assets which differ significantly in their nature and use. Accordingly, they are regarded by the Group as separate classes of asset for subsequent measurement policies in accordance with notes 3(g) and (ae).

In making this judgment, the Group has taken into account that, as the registered owner of a leasehold property, the Group is able to benefit fully from any changes in the valuation of these properties whether as holding gains or by selling the property interest to others, as well as being able to use the properties in its operation free of paying market rents.

## 4. ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES *(Continued)*

### (b) Key sources of estimation uncertainties

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*(i) Useful lives and impairment assessment of property, plant and equipment and right-of-use assets*

Property, plant and equipment and right-of-use assets are stated at cost less accumulated depreciation and impairment losses. The estimation of useful lives impacts the level of annual depreciation expenses recorded. Property, plant and equipment and right-of-use assets are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statement of profit or loss.

*(ii) Provision of ECL for trade receivables and contract assets*

Trade receivables and contract assets with significant balances and credit-impaired are assessed for ECL individually. The Group uses provision matrix to calculate ECL for the trade receivables and contract assets. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

*(iii) Estimated impairment loss recognised in respect of other receivables and loan receivables*

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

*(iv) Estimated impairment loss of operating concession and exclusive rights*

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the asset is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision.

## 4. ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES *(Continued)*

### (b) Key sources of estimation uncertainties *(Continued)*

*(v) Estimated impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, which is the greater of the value-in-use or fair value less costs of disposal. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

*(vi) Revenue from construction contracts*

Revenue from construction contracts of certain water supply and sewage treatment of the Group are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. In recognition of profit and loss on the construction contracts, the management makes their best estimation of the future expected revenue from the contracts and future expected cost to complete the job. The estimates are determined by the management based on the current market conditions and expected time cost, material cost, other overhead expense to be incurred, expectations of future changes in the market and experience of similar transactions. Any change in these estimates will have an impact on the amount of contract revenue or contract loss.

*(vii) Estimation of water consumption*

Determination of the revenue from the distribution and sale of water may include an estimation of the water supplied to customers for whom actual meter reading is not available. The estimation is done mainly based on the past consumption records and the recent consumption pattern of individual customers.

The actual consumption could deviate from those estimates.

*(viii) Classification between operating concessions and receivables under service concession arrangements*

As explained in note 3(j) to the consolidated financial statements, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at their fair values.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, future guaranteed receipts and non-guaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

## 4. ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES *(Continued)*

### (b) Key sources of estimation uncertainties *(Continued)*

*(ix) Fair value measurement of financial instruments*

At 31 December 2022, the Group's investments in unquoted equity instruments amounting to HK$30,115,000 (2021: HK$16,328,000), are measured at fair value determined based on significant unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Whilst the Group considers these valuations are the best estimates, the ongoing COVID-19 pandemic and inflationary environment and interest rates hike have resulted in greater market volatility and may affect the investees' businesses, which have led to higher degree of uncertainties in respect of the valuations in the current and prior year. Changes in assumptions relating to these factors could result in material adjustments to the fair value of these instruments. See note 6(d) for further disclosures.

## 5. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes various types of borrowings, such as bank borrowings, other loans, amounts due to non-controlling shareholders of subsidiaries, amounts due to joint ventures and overdraft held at financial institutions, less cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through the raise of various types of borrowings, issuance of convertible bonds and new shares.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group monitors its capital structure on the basis of a gearing ratio. This ratio is calculated as net debt divided by equity attributable to owners of the Company. Net debt is calculated as total borrowings less cash and cash equivalents.

## 5. CAPITAL MANAGEMENT *(Continued)*

The gearing ratios at 31 December 2022 and 2021 are as follows:

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank borrowings | **284,357** | 179,719 |
| Other loans | **201,025** | 381,577 |
| Amounts due to non-controlling shareholders of subsidiaries | **–** | 329 |
| Lease liabilities | **284,515** | 288,561 |
| Total debt | **769,897** | 850,186 |
| Less: | | |
| Cash held by financial institutions | **(596)** | (147) |
| Bank balances and cash | **(183,851)** | (291,211) |
| Cash and cash equivalents | **(184,447)** | (291,358) |
| Net debt | **585,450** | 558,828 |
| Equity attributable to owners of the Company | **1,395,640** | 1,370,239 |
| Gearing ratio | **41.95%** | 40.78% |

## 6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The main risks arising from Group's financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group's exposure of these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The Group's credit risk is primarily attributable to trade and other receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are reputable banks with high credit rating assigned by international credit rating agencies, for which the Group considers to have low credit risk. The Group assessed 12-month ECL for cash and cash equipment by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12-month ECL on cash and cash equivalents is to be insignificant and therefore no loss allowance was recognised. The Group does not obtain collateral from counterparties.

*Trade receivables and contract assets*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

The Group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 0–180 days (2021: 0–180 days) from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 100% (2021: 100%) of the total trade receivables at 31 December 2022. The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The Group used average loss rate of 0.5% (2021: 0.1% to 0.3%). Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's of economic conditions over the expected lives of the receivables and were adjusted for any forward-looking information that was available without undue cost or effort.

## 6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

### (a) Credit risk *(Continued)*

*Trade receivables and contract assets (Continued)*

The movements in the loss allowances on trade receivables are as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| At 1 January | **7,353** | 5,041 |
| Allowance/expected credit loss recognised, net | **1,297** | 2,213 |
| Exchange realignment | **(584)** | 99 |
| At 31 December | **8,066** | 7,353 |

Included in the impairment loss are individually impaired trade receivables with an aggregate balance of approximately HK$8,066,000 (2021: HK$7,353,000) which are long outstanding.

The following significant changes in the gross carrying amounts of trade receivables and contract assets contributed to the increase in the loss allowance during 2022:

— origination of new trade receivables net of those settled resulted in an increase in loss allowance;

— increase in days past due over 180 days resulted in an increase in loss allowance.

At 31 December 2022, included in trade receivables were the government on-grid tariff subsidies of approximately HK$587,420,000 (2021: HK$578,240,000) and electricity sales receivables of approximately HK$25,280,000 (2021: HK$32,480,000) from local grid companies. The tariff subsidies receivables are settled in accordance with prevailing government policies and prevalent payment trends of Ministry of Finance of the PRC. There is no due date for settlement. Trade receivables from renewable energy business are fully recoverable considering there were no bad debt experiences with the local grid companies in the past and such tariff subsidies are funded by the PRC government. As the Group considers credit risk for such balances to be insignificant, the expected credit loss is minimal, and included in allowance/expected credit loss recognised for the year amounted to approximately HK$1,270,000 (2021: HK$1,620,000).

## 6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

### (a) Credit risk *(Continued)*

*Other receivables*

For other receivables, the directors of the Company make periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12-month ECL.

The movement in the loss allowances on other receivables are as follows:

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 January | **17,159** | 12,607 |
| Allowance/expected credit loss recognised | **28,136** | 4,524 |
| Exchange realignment | **(2,251)** | 28 |
| At 31 December | **43,044** | 17,159 |

Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$43,044,000 (2021: HK$17,159,000) which are long outstanding.

*Loan receivables*

Loss allowance in respect of loan receivables are measured as either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset at the reporting date with the risk of default at the date of initial recognition by considering available, reasonable and supportive forwarding-looking information.

## 6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

### (a) Credit risk *(Continued)*

*Loan receivables (Continued)*

The movements in the loss allowances on loan receivables are as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| At 1 January | **120,060** | 77,373 |
| Allowance/expected credit loss recognised | **93,220** | 39,985 |
| Exchange realignment | **(8,288)** | 2,702 |
| At 31 December | **204,992** | 120,060 |

Included in the impairment loss are individually impaired loan receivables with an aggregate balance of HK$204,992,000 (2021: HK$120,060,000) which are long outstanding. The Group does not hold any collateral over these balances.

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants, to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table set out the Group's remaining contractual maturities at the end of reporting period of the Group's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payment computed using contractual rates or, if floating based on rates current the end of the reporting period) and at the earliest date on which the Group can be required to pay.

## 6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

### (b) Liquidity risk *(Continued)*

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | More than 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
| Non-derivative financial liabilities | | | | | | |
| Trade and other payables | **487,823** | **21,371** | **–** | **–** | **509,194** | **509,194** |
| Lease liabilities | **141,779** | **81,004** | **89,126** | **5,459** | **317,368** | **284,515** |
| Bank borrowings and other loans | **260,030** | **89,649** | **144,521** | **44,834** | **539,034** | **485,382** |
| | **889,632** | **192,024** | **233,647** | **50,293** | **1,365,596** | **1,279,091** |

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | More than 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
| Non-derivative financial liabilities | | | | | | |
| Trade and other payables | 577,073 | – | – | – | 577,073 | 577,073 |
| Lease liabilities | 128,623 | 114,287 | 67,157 | 8,826 | 318,893 | 288,561 |
| Bank borrowings and other loans | 451,289 | 27,235 | 99,253 | 2,722 | 580,769 | 561,296 |
| Amounts due to non-controlling shareholders | 329 | – | – | – | 329 | 329 |
| | 1,157,314 | 141,522 | 166,680 | 11,548 | 1,477,064 | 1,427,259 |

## 6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

### (c) Market risk

#### *(i) Currency risk*

Exposure to currency risk

Other than the subsidiaries established in the PRC and Indonesia whose functional currency is RMB and Rupiah, the Company and its subsidiaries' functional currency is HK$. However, certain bank balances and other receivables are denominated in currencies other than HK$ held by the Company and its subsidiaries established in Hong Kong. Foreign currencies are also used to settle expenses for overseas operations. In addition, the Company has intra-group balances with several subsidiaries denominated in foreign currencies which also expose the Group to foreign currency risk.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollar, translated using the spot rate at the end of the reporting period. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

| | **Exposure to foreign currencies (expressed in HK$'000)** | | | |
|---|---|---|---|---|
| | **2022** | | 2021 | |
| | **USD** | **RMB** | USD | RMB |
| Assets | **47** | **104** | 34 | 120 |

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the needs arise.

## 6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

### (c) Market risk *(Continued)*

#### *(i) Currency risk (Continued)*

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and accumulated losses) and other comprehensive income that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rates** | **Increase/ (decrease) in profit after tax and decrease/ (increase) in accumulated losses HK$'000** | Increase/ (decrease) in foreign exchange rates | Increase/ (decrease) in profit after tax and decrease/ (increase) in accumulated losses HK$'000 |
| Renminbi | **5%** | **2** | 5% | 6 |
| | **(5%)** | **(2)** | (5%) | (6) |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2021.

## 6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

### (c) Market risk *(Continued)*

#### *(ii) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates.

The Group is primarily exposed to fair value interest rate risk in relation to cash and cash equivalents and bank borrowings, other loans and lease liabilities for the years ended 31 December 2022 and 2021. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The following table, as reported to the management of the Group, details the interest rate risk profile of the Group's interest-bearing financial liabilities at the end of the reporting period:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Effective interest rate %** | **HK$'000** | Effective interest rate % | HK$'000 |
| **Fixed rate borrowings:** | | | | |
| Bank borrowings | **3.85%–9.19%** | **183,921** | 4.57%–12.60% | 15,517 |
| Other loans | **0%–18.00%** | **201,025** | 0%–16.71% | 381,577 |
| Lease liabilities | **4.35%–7.60%** | **284,515** | 4.30%–7.80% | 288,561 |
| | | **669,461** | | 685,655 |
| **Variable rate borrowings:** | | | | |
| Bank borrowings | **3.85%–7.84%** | **100,436** | 4.13%–7.84% | 164,202 |
| | | **100,436** | | 164,202 |
| Total borrowings | | **769,897** | | 849,857 |
| Fixed rate borrowings as a percentage of total borrowings | | **87%** | | 81% |

## 6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

### (c) Market risk *(Continued)*

#### *(ii) Interest rate risk (Continued)*

Sensitivity analysis

As 31 December 2022, it is estimated that a general increase/decrease of 50 basis points in interest rates, (2021: 50 basis points) with all other variables held constant, would have decreased/increased the Group's profit after tax increase/decrease the accumulated losses by approximately HK$377,000 (2021: HK$616,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

The sensitivity analysis above has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2021: 50 basis points) increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis as 2021. Cash and cash equivalents are excluded from sensitivity analysis as the management considers that the exposure of cash flow interest rate is insignificant.

#### *(iii) Equity price risk*

The Group is exposed to equity price risk through its investments in listed equity securities and unlisted fund investments. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange. In addition, the Group has a team to monitor the price risk and will consider hedging the risk exposure should the needs arise.

The Group's unlisted fund investments comprised mainly investments in private equity funds. The Group managed the equity price risk through diversification of investment portfolio. The underlying investments held by these funds include unlisted equity instruments, structured financing products and venture capital deals in various regions in the PRC. The fair values of these investments are affected by the market conditions in the abovementioned sectors, the overall capital market conditions, as well as the performance of individual investees of each of these funds. The investments held in the portfolio may be realised only after several years and their fair values may change significantly.

## 6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

### (c) Market risk *(Continued)*

*(iii) Equity price risk (Continued)*

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

At 31 December 2022, it is estimated that a general increase/decrease of 100 basis points (2021: 100 basis points) in the fair value of the Group's listed and unlisted equity securities, with all other variables held constant, would have increase/decrease the Group's profit after tax (and decrease/increase accumulated losses) and other comprehensive income by approximately HK$257,952 (2021: HK$159,000).

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and accumulated losses) and other components of consolidated equity that would arise assuming that the changes in fair value had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that all other variables remain constant. The analysis is performed on the same basis for 2021.

### (d) Fair value measurements recognised in the consolidated statement of financial position

*(i) Financial instruments carried at fair value*

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

## 6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

### (d) Fair value measurements recognised in the consolidated statement of financial position *(Continued)*

*(i) Financial instruments carried at fair value (Continued)*

Fair value hierarchy *(Continued)*

The Company's directors are responsible to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group takes reference to the fair value of the financial assets based on the net asset value of the financial assets calculated on the last day of each calendar month and reported by the fund manager or engaged third party qualified valuers to perform the valuation. The Company's directors work closely with independent qualified valuers to establish the appropriate valuation techniques and inputs to the model.

| | Fair value at 31 December 2022 HK$'000 | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Recurring fair value measurement** | | | | | |
| **Assets** | | | | | |
| Financial assets at FVPL | | | | | |
| — unlisted fund investments | 30,115 | – | – | 30,115 | 30,115 |
| | 30,115 | – | – | 30,115 | 30,115 |
| Equity investments at FVOCI | 3,843 | 3,843 | – | – | 3,843 |

## 6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

### (d) Fair value measurements recognised in the consolidated statement of financial position *(Continued)*

*(i) Financial instruments carried at fair value (Continued)*

Fair value hierarchy *(Continued)*

| | Fair value at 31 December 2021 HK$'000 | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Recurring fair value measurement** | | | | | |
| **Assets** | | | | | |
| Financial assets at FVPL | | | | | |
| — listed equity securities | 359 | 359 | – | – | 359 |
| — unlisted fund investments | 16,328 | – | – | 16,328 | 16,328 |
| | 16,687 | 359 | – | 16,328 | 16,687 |
| Equity investments at FVOCI | 4,071 | 4,071 | – | – | 4,071 |
| **Liabilities** | | | | | |
| Financial liability at FVPL | | | | | |
| — Contingent consideration payable | 1,343 | – | – | 1,343 | 1,343 |

During the years ended 31 December 2022 and 2021, there were no significant transfers between instruments levels.

*Valuation techniques and inputs used in Level 3 fair value measurements*
The Group's unlisted financial assets measured at FVPL categorised in Level 3 as at 31 December 2022 and 2021 comprise private equity funds. These private equity funds were managed by unrelated asset managers who applied various investment strategies to accomplish their respective investment objectives. The fair value of these funds is recorded based on valuations supplied by the fund managers. These valuations are measured by the percentage of ownership of the private equity's net asset value, which is an unobservable input.

The Group's financial liability measured at FVPL categorised in Level 3 as at 31 December 2021 comprises contingent consideration which is generated from acquisition of a subsidiary during the year (see note 37) and included under "Trade and other payables". The fair value of contingent consideration is recorded based on valuation performed by independent professional valuer and determined based on discounted cash flow model. This significant unobservable inputs include discount rate of 10% and electricity generated for the next five years.

*(ii) Financial instruments carried at other than fair value*

The carrying amounts of the Group's other financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2022 and 2021.

## 7. REVENUE

### Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or services lines is as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Revenue from contracts with customers within the scope of HKFRS 15: | | |
| Disaggregated by major products or service lines: | | |
| Water supply services | **146,351** | 155,293 |
| Sewage treatment services | **83,447** | 83,093 |
| Water supply related installation and construction income | **226,499** | 233,011 |
| Water supply and sewage treatment infrastructure construction income | **101,160** | 47,299 |
| Sale of electricity | **420,413** | 514,097 |
| Sale of compressed natural gas | **4,441** | 21,269 |
| Service income from collection of landfill gas | **29,517** | 33,828 |
| Sales of property investment and development | **207,315** | 13,901 |
| | **1,219,143** | 1,101,791 |

Sales of electricity to provincial power grid companies included tariff adjustment received and receivable from the relevant government authorities.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in note 8.

## 8. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the board of directors of the Company being the chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group has identified the following reportable segments:

(i) "Provision of water supply, sewage treatment and construction services" segment, which derives revenues primarily from the provision of water supply and sewage treatment operations and related construction services; and

(ii) "Exploitation and sale of renewable energy" segment, which derives revenues primarily from sale of electricity and compressed natural gas from biogas power plants; and

(iii) "Property investment and development" segment, which derives revenues primarily from sale of commercial and residential units.

Information regarding the Group's reportable segments as provided to the board of directors of the Company for the purposes of resource allocation and assessment of segment performance is set out below.

## 8. SEGMENT REPORTING *(Continued)*

### Segment revenue and results

Disaggregation of revenue from contracts with customers by the timing of revenue recognition as well as information regarding the Group's reportable and operating segments, are set out below.

**For the year ended 31 December 2022**

| | Provision of water supply, sewage treatment and construction services HK$'000 | Exploitation and sale of renewable energy HK$'000 | Property investment and development HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Reportable segment revenue | | | | |
| Disaggregated by timing of revenue recognition: | | | | |
| Point in time | 229,798 | 454,371 | 207,315 | 891,484 |
| Over time | 327,659 | – | – | 327,659 |
| Reportable segment revenue | 557,457 | 454,371 | 207,315 | 1,219,143 |
| Reportable segment profit | 81,096 | 87,589 | 7,817 | 176,502 |
| Unallocated corporate expenses | | | | (167,284) |
| Interest income | | | | 198 |
| Interest on fixed coupon bonds | | | | (9,967) |
| Net gain on financial assets at fair value through profit or loss | | | | 696 |
| Loss on disposal of a joint venture | | | | (1,142) |
| Gain on disposal of subsidiaries | | | | 531 |
| Loss before taxation | | | | (466) |

## 8. SEGMENT REPORTING *(Continued)*

**Segment revenue and results** *(Continued)*

**For the year ended 31 December 2021**

| | Provision of water supply, sewage treatment and construction services HK$'000 | Exploitation and sale of renewable energy HK$'000 | Property investment and development HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Reportable segment revenue | | | | |
| Disaggregated by timing of revenue recognition: | | | | |
| Point in time | 238,386 | 569,194 | 13,901 | 821,481 |
| Over time | 280,310 | – | – | 280,310 |
| Reportable segment revenue | 518,696 | 569,194 | 13,901 | 1,101,791 |
| Reportable segment profit | 132,692 | 104,809 | (7,298) | 230,203 |
| Unallocated corporate expenses | | | | (136,673) |
| Interest income | | | | 1,166 |
| Interest on fixed coupon bonds | | | | (28,387) |
| Net gain on financial assets at fair value through profit or loss | | | | 15,895 |
| Loss on disposal of an associate | | | | (38,405) |
| Gain on disposal of subsidiaries | | | | 45,712 |
| Profit before taxation | | | | 89,511 |

## 8. SEGMENT REPORTING *(Continued)*

### Other segment information

**For the year ended 31 December 2022**

| | Provision of water supply, sewage treatment and construction services HK$'000 | Exploitation and sale of renewable energy HK$'000 | Property investment and development HK$'000 | Corporate HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Interest income | 8,910 | 431 | 2 | 198 | – | 9,541 |
| Interest expenses | (3,834) | (28,065) | – | (35,636) | – | (67,535) |
| Share of loss of associates | – | (133) | – | – | – | (133) |
| Share of profit/(loss) of joint ventures | 1,060 | – | – | (276) | – | 784 |
| Depreciation of: | | | | | | |
| — Property, plant and equipment | (2,374) | (51,245) | (19,165) | (1,874) | – | (74,658) |
| — Right-of-use assets | (1,376) | (45,235) | (622) | (3,430) | – | (50,663) |
| Amortisation of: | | | | | | |
| — Concession intangible assets | (35,542) | (15,463) | – | – | – | (51,005) |
| — Other intangible assets | – | (21,787) | – | – | – | (21,787) |
| Gain/(loss) on disposal of property, plant and equipment, net | (24) | 96 | – | 44 | – | 116 |
| Gain/(loss) on disposal of: | | | | | | |
| — Joint venture | – | – | – | (1,142) | – | (1,142) |
| — Subsidiaries | – | – | – | 531 | – | 531 |
| Loss on disposal of concession intangible assets | (114) | – | – | – | – | (114) |
| Write off of: | | | | | | |
| — Property, plant and equipment | – | (18,372) | – | – | – | (18,372) |
| — Right-of-use assets | – | (6,328) | – | – | – | (6,328) |
| Impairment loss recognised on: | | | | | | |
| — Property, plant and equipment | – | (13,490) | – | – | – | (13,490) |
| — Goodwill | – | (22) | – | – | – | (22) |
| — Other intangible assets | – | (1,480) | – | – | – | (1,480) |
| — Trade and other receivables, net | (7,888) | (2,078) | (27,040) | (85,767) | – | (122,773) |
| — Right-of-use assets | – | (1,295) | – | – | – | (1,295) |
| Reportable segment assets | 925,926 | 1,856,483 | 513,740 | 167,296 | 63 | 3,463,508 |
| Additions to non-current assets | 106,135 | 271,807 | 52,669 | 23,754 | – | 454,365 |
| Reportable segment liabilities | (365,733) | (684,167) | (253,569) | (216,347) | (41,274) | (1,561,090) |

## 8. SEGMENT REPORTING *(Continued)*

### Other segment information *(Continued)*

**For the year ended 31 December 2021**

| | Provision of water supply, sewage treatment and construction services HK$'000 | Exploitation and sale of renewable energy HK$'000 | Property investment and development HK$'000 | Corporate HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Interest income | 4,721 | 110 | 47 | 1,166 | – | 6,044 |
| Interest expenses | (4,141) | (19,264) | (370) | (42,656) | – | (66,431) |
| Share of profit/(loss) of associates | 32,299 | 196 | (34) | (50) | – | 32,411 |
| Share of profit/(loss) of joint ventures | 1,407 | – | (390) | (377) | – | 640 |
| Depreciation of: | | | | | | |
| — Property, plant and equipment | (1,833) | (48,051) | (2,509) | (3,811) | – | (56,204) |
| — Right-of-use assets | (2,724) | (38,366) | (1,256) | (2,685) | – | (45,031) |
| Amortisation of: | | | | | | |
| — Concession intangible assets | (35,459) | (15,703) | – | – | – | (51,162) |
| — Other intangible assets | – | (25,128) | – | – | – | (25,128) |
| Gain/(loss) on disposal of property, plant and equipment, net | 4 | (464) | – | 88 | – | (372) |
| Gain/(loss) on disposal of: | | | | | | |
| — Associate | – | – | – | (38,405) | – | (38,405) |
| — Subsidiaries | – | – | – | 45,712 | – | 45,712 |
| Loss on disposal of concession intangible assets | (405) | – | – | – | – | (405) |
| Impairment loss recognised on: | | | | | | |
| — Property, plant and equipment | – | (29,582) | – | (1,217) | – | (30,799) |
| — Goodwill | – | (7,715) | – | – | – | (7,715) |
| — Other intangible assets | – | (4,913) | – | – | – | (4,913) |
| — Trade and other receivables, net | 1,289 | (3,961) | (461) | (66,271) | – | (69,404) |
| — Right-of-use assets | – | (13,097) | – | – | – | (13,097) |
| Reportable segment assets | 1,054,081 | 1,837,544 | 755,355 | 214,148 | 739 | 3,861,867 |
| Additions to non-current assets | 81,969 | 64,692 | 95,863 | 3,963 | – | 246,487 |
| Reportable segment liabilities | (429,156) | (576,103) | (505,908) | (374,398) | (50,436) | (1,936,001) |

## 8. SEGMENT REPORTING *(Continued)*

### Other segment information *(Continued)*

Segment assets include all tangible, intangible assets and current assets with the exception of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income and other unallocated corporate assets. Segment liabilities include all current liabilities and non-current liabilities with the exception of other unallocated corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Segment revenue reported above represents revenue generated from external customers. There were no inter-segments sales in the current year (2021: Nil).

The measure used for reporting segment profit is "adjusted profit before tax". To arrive at adjusted profit before tax, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as interest on overdraft held at financial institutions, change in fair value of financial assets at fair value through profit or loss, directors' and auditors' remuneration and other head office or corporate administration costs.

No geographical information is presented as the Group's business is principally carried out in the PRC (country of domicile) and the Group's revenue from external customers and non-current assets are in the PRC. No geographical information for other country is of a significant size to be reported separately.

### Information about major customers

Revenue from customers contributing 10% or more of the total revenue of the Group are as follows:

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Customer A — revenue from exploitation and sale of renewable energy | **127,177** | 131,568 |

## 9. OTHER OPERATING INCOME AND EXPENSES

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Interest income on: | | |
| — bank deposits | **2,422** | 3,813 |
| — loans (note (a)) | **7,119** | 2,231 |
| Total interest income on financial assets not at fair value through profit or loss | **9,541** | 6,044 |
| Government grants (note 35) | **4,218** | 11,616 |
| Consultancy fee income | **2,968** | – |
| Handling charges | **1,820** | 2,979 |
| Repair services income | **3,539** | 1,929 |
| Gross rentals from investment properties | **780** | 907 |
| Gain/(loss) on disposal of property, plant and equipment, net | **116** | (372) |
| Loss on disposal of concession intangible assets | **(114)** | (405) |
| VAT refund | **20,137** | 23,706 |
| Revenue from management services | **–** | 7,762 |
| Proceeds from steel trade | **–** | 3,779 |
| Revenue from sale of equipment, net | **2,486** | – |
| Revenue from guaranteed project, net | **4,444** | – |
| Sale of carbon emission target income | **60,393** | 8,972 |
| Write off of property, plant and equipment | **(18,372)** | – |
| Write off of right-of-use assets | **(6,328)** | – |
| Others | **(14,331)** | 12,139 |
| | **71,297** | 79,056 |

Note:

(a) During 2022, the Group earned interest income of approximately HK$7,119,000 (2021: HK$2,231,000) on loans to eighteen (2021: seventeen) unrelated parties (note 26), which bears fixed interest ranging from 4% to 24% (2021: from 4% to 24%) per annum.

## 10. FINANCE COSTS

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| — bank borrowings | **8,587** | 3,958 |
| — other loans | **48,710** | 59,580 |
| — lease liabilities | **23,278** | 21,106 |
| Total borrowing costs | **80,575** | 84,644 |
| Less: interest capitalised included in construction in progress | **(13,040)** | (18,213) |
| | **67,535** | 66,431 |

Included in construction in progress under concession intangible assets and property, plant and equipment are interest capitalised during the year of approximately HK$13,040,000 (2021: HK$18,213,000) at the capitalisation rate of 9.93% (2021: 8.87%) per annum.

## 11. INCOME TAX EXPENSE

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Current tax — Hong Kong Profits Tax | | |
| — Provision for the year | **–** | – |
| Current tax — PRC Enterprise Income Tax ("EIT") | | |
| — Provision for the year | **37,369** | 67,098 |
| — Under-provision in respect of prior years | **21** | 239 |
| Deferred tax (note 36) | **(8,137)** | (3,373) |
| | **29,253** | 63,964 |

No provision for Hong Kong profit tax has been made for the years ended 31 December 2021 and 2022 as the Company and its subsidiaries did not have assessable profit subject to Hong Kong profit tax for these years.

## 11. INCOME TAX EXPENSE *(Continued)*

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Accordingly, provision for PRC EIT for the PRC subsidiaries is calculated at 25% on the estimated assessable profits for both years, except disclosed as follows.

Certain subsidiaries of the Group, being engaged in provision of electricity supply and sale of renewable energy, under the EIT Law and its relevant regulations, are entitled to tax concession of 3-year full exemption and subsequent 3-year 50% exemption commencing from their respective years in which their first operating incomes were derived.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss as follows:

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| (Loss)/profit before taxation | **(466)** | 89,511 |
| Notional tax on (loss)/profit before taxation, calculated at the rate applicable to profits in the countries concerned | **(3,898)** | 23,244 |
| Tax effect of share of results of associates | **33** | (7,605) |
| Tax effect of share of results of joint ventures | **(265)** | (293) |
| Tax effect of expenses not deductible for tax purposes | **60,328** | 69,428 |
| Tax effect of income not taxable for tax purposes | **(17,135)** | (18,609) |
| Effect on tax exemption granted to PRC subsidiaries | **(14,584)** | (23,029) |
| Tax effect of tax losses and deductible temporary differences not recognised | **4,753** | 20,589 |
| Over provision in respect of prior years | **21** | 239 |
| | **29,253** | 63,694 |

## 12. (LOSS)/PROFIT FOR THE YEAR

(Loss)/profit for the year has been arrived at after charging/(crediting):

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Staff costs excluding directors' and chief executive's emoluments | | |
| — Salaries, wages and other benefits | **165,425** | 185,962 |
| — Retirement benefits scheme contributions | **24,898** | 24,476 |
| Total staff costs | **190,323** | 210,438 |
| Amortisation of: | | |
| — concession intangible assets | **51,005** | 51,162 |
| — other intangible assets | **21,787** | 25,128 |
| Depreciation of: (note 16) | | |
| — owned property, plant and equipment | **74,658** | 56,204 |
| — right-of-use assets | **50,663** | 45,031 |
| Lease payments not included in the measurement of lease liabilities | **5,433** | 7,548 |
| Write off of: | | |
| — property, plant and equipment | **18,372** | – |
| — right-of-use assets | **6,328** | – |
| (Gain)/loss on disposal of property, plant and equipment, net | **(116)** | 372 |
| Loss on disposal of concession intangible assets | **114** | 405 |
| Auditor's remuneration | | |
| — audit services | **2,540** | 2,290 |
| — other services | **310** | 1,203 |
| Cost of inventories (note 24) | **149,336** | 59,180 |
| Gross rental income from investment properties less direct outgoings of approximately HK$54,000 (2021: HK$72,000) | **(726)** | (835) |

## 13. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments, two (2021: all) were directors and chief executive whose emoluments are set out in note 44. The aggregate of the emoluments in respect of the other three (2021: Nil) individuals are as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Salaries and other emoluments | **3,789** | – |
| Retirement scheme contributions | **244** | – |
| | **4,033** | – |

## 13. FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

The emoluments of the three (2021: Nil) individuals (who are not directors of the Company) with the highest emoluments are within the following bands.

| | **2022 Number of individuals** | 2021 Number of individuals |
|---|---|---|
| Nil — HK$2,000,000 | **3** | – |

## 14. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2022, nor has any dividend been proposed since the end of the reporting period (2021: Nil).

## 15. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the owners of the Company is based on the following data:

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| Loss attributable to the owners of the Company, used in the basic and diluted loss per share | **(89,198)** | (44,020) |

| | **No. of shares '000** | No. of shares '000 |
|---|---|---|
| Weighted average number of ordinary shares — basic and diluted | **2,299,776** | 1,596,540 |
| Loss per share (HK cents): | | |
| Basic | **(3.88)** | (2.76) |
| Diluted | **(3.88)** | (2.76) |

For the year ended 31 December 2022 and 2021, diluted loss per share equals basic loss per share as there was no dilutive potential share.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Ownership interests in land held for own use HK$'000 | Other properties leased for own use HK$'000 | Plant and machinery leased for own use HK$'000 | Buildings HK$'000 | Plant and machinery HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| At 1 January 2021 | 169,168 | 25,691 | 435,931 | 138,119 | 465,881 | 26,345 | 40,310 | 391,297 | 1,692,742 |
| Additions | 3,635 | 2,388 | – | 189 | 28,690 | 3,289 | 167 | 144,449 | 182,807 |
| Additions | | | | | | | | | |
| — interest capitalised | – | – | – | – | – | – | – | 12,808 | 12,808 |
| Transfer from investment properties | – | – | – | (451) | – | – | – | – | (451) |
| Transfer to assets held for sale | – | – | – | – | – | – | – | (13,942) | (13,942) |
| Transfer | – | – | 91,989 | 7,857 | (58,033) | 2,780 | – | (44,593) | – |
| Transfer to inventories | – | – | – | – | – | – | – | – | – |
| Disposals | – | – | – | – | (24,053) | (59) | (10,002) | – | (34,114) |
| Disposal of subsidiaries | (84,226) | (101) | – | (52,859) | (6,944) | (8,181) | (2,660) | (3,022) | (157,993) |
| Write off | – | (4,142) | – | – | – | – | – | – | (4,142) |
| Exchange realignment | 3,759 | 409 | 14,262 | 3,166 | 13,448 | 696 | 595 | 24,126 | 60,461 |
| At 31 December 2021 and 1 January 2022 | **92,336** | **24,245** | **542,182** | **96,021** | **418,989** | **24,870** | **28,410** | **511,123** | **1,738,176** |
| Additions | **1,981** | **23,151** | **–** | **98** | **1,872** | **2,387** | **3,522** | **82,036** | **115,047** |
| Additions | | | | | | | | | |
| — interest capitalised | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **4,628** | **4,628** |
| Transfer to investment properties | **(35,216)** | **–** | **–** | **–** | **–** | **–** | **–** | **(175,587)** | **(210,803)** |
| Transfer to assets held for sale | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(29,147)** | **(29,147)** |
| Transfer | **–** | **–** | **78,381** | **4,536** | **(59,073)** | **–** | **–** | **(23,844)** | **–** |
| Disposals | **–** | **–** | **–** | **–** | **(357)** | **(216)** | **(10,009)** | **–** | **(10,582)** |
| Disposal of subsidiaries | **–** | **–** | **–** | **(2,018)** | **(236)** | **(2,261)** | **(1,626)** | **–** | **(6,141)** |
| Acquired through business combination | **2,612** | **–** | **–** | **695** | **29,807** | **173** | **549** | **14,287** | **48,123** |
| Write off | **–** | **–** | **(16,240)** | **(6,024)** | **(29,813)** | **(675)** | **(1,120)** | **–** | **(53,872)** |
| Lease modification | **–** | **(64)** | **–** | **–** | **–** | **–** | **–** | **–** | **(64)** |
| Exchange realignment | **(9,158)** | **(1,338)** | **(48,144)** | **(8,526)** | **(38,803)** | **(2,169)** | **(1,579)** | **(28,819)** | **(138,536)** |
| At 31 December 2022 | **52,555** | **45,994** | **556,179** | **84,782** | **322,386** | **22,109** | **18,147** | **354,677** | **1,456,829** |

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | Ownership interests in land held for own use HK$'000 | Other properties leased for own use HK$'000 | Plant and machinery leased for own use HK$'000 | Buildings HK$'000 | Plant and machinery HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation and impairment:** | | | | | | | | | |
| At 1 January 2021 | 9,491 | 13,720 | 130,075 | 28,354 | 153,177 | 14,264 | 25,705 | 16,166 | 390,952 |
| Provided for the year | 2,469 | 3,562 | 39,000 | 4,894 | 38,576 | 1,626 | 3,508 | 7,600 | 101,235 |
| Transfer from investment properties | – | – | – | (220) | – | – | – | – | (220) |
| Eliminated on disposal | – | – | – | – | (10,586) | (57) | (7,493) | – | (18,136) |
| Transfer | (11,172) | (62) | – | (8,082) | (4,737) | (3,559) | (1,513) | – | (29,125) |
| Disposal of subsidiaries | – | – | 29,757 | – | (29,757) | – | – | – | – |
| Impairment | 198 | – | 12,899 | 3,382 | 23,474 | 96 | 126 | 3,721 | 43,896 |
| Write off | – | (1,377) | – | – | – | – | – | – | (1,377) |
| Exchange realignment | 544 | 214 | 4,861 | 873 | 7,369 | 373 | 451 | – | 14,685 |
| At 31 December 2021 and 1 January 2022 | **1,530** | **16,057** | **216,592** | **29,201** | **177,516** | **12,743** | **20,784** | **27,487** | **501,910** |
| Provided for the year | **1,998** | **4,515** | **44,150** | **5,234** | **36,242** | **1,832** | **1,860** | **29,490** | **125,321** |
| Eliminated on disposal | **–** | **–** | **–** | **–** | **(338)** | **(145)** | **(7,763)** | **–** | **(8,246)** |
| Disposal of subsidiaries | **–** | **–** | **–** | **(557)** | **(189)** | **(1,261)** | **(848)** | **–** | **(2,855)** |
| Transfer | **–** | **–** | **49,509** | **–** | **(49,509)** | **–** | **–** | **–** | **–** |
| Impairment | **–** | **–** | **1,295** | **1,415** | **5,845** | **15** | **21** | **6,194** | **14,785** |
| Write off | **–** | **–** | **(9,912)** | **(2,700)** | **(15,044)** | **(565)** | **(951)** | **–** | **(29,172)** |
| Lease modification | **–** | **(13)** | **–** | **–** | **–** | **–** | **–** | **–** | **(13)** |
| Exchange realignment | **(208)** | **(678)** | **(23,657)** | **(3,021)** | **(16,142)** | **(1,144)** | **(1,062)** | **(559)** | **(46,471)** |
| At 31 December 2022 | **3,320** | **19,881** | **277,977** | **29,572** | **138,381** | **11,475** | **12,041** | **62,612** | **555,259** |
| **Carrying values** | | | | | | | | | |
| At 31 December 2022 | **49,235** | **26,113** | **278,202** | **55,210** | **184,005** | **10,634** | **6,106** | **292,065** | **901,570** |
| At 31 December 2021 | 90,806 | 8,188 | 325,590 | 66,820 | 241,473 | 12,127 | 7,626 | 483,636 | 1,236,266 |

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

The analysis of the net carrying value of right-of-use assets by class of underlying asset is as follows:

| | Notes | At 31 December 2022 HK$'000 | At 1 January 2022 HK$'000 |
|---|---|---|---|
| Ownership interests in leasehold land held for own use, carried at depreciated cost in China, with remaining lease term of: | (i) | | |
| — between 10 and 50 years | | **49,235** | 90,806 |
| | | **49,235** | 90,806 |
| Other properties leased for own use, carried at depreciated cost | (ii) | **26,113** | 8,188 |
| Plant and machinery carried out depreciated cost | (iii) | **278,202** | 325,590 |
| | | **304,315** | 333,778 |

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Depreciation charge of right-of-use assets by class of underlying asset: | | |
| Ownership interests in leasehold land | **1,998** | 2,469 |
| Other properties leased for own use | **4,515** | 3,562 |
| Plant and machinery | **44,150** | 39,000 |
| | **50,663** | 45,031 |
| Interest on lease liabilities (note 10) | **23,278** | 21,106 |
| Lease payments not included in the measurement of lease liabilities | **5,433** | 7,548 |

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

During the year, additions to right-of-use assets were approximately HK$25,132,000 (2021: HK$6,023,000). This amount included the purchase of a leasehold property of approximately HK$1,981,000 (2021: HK$3,635,000), and the remainder primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for lease and the maturity analysis of lease liabilities are set out in note 27(b) and 32 respectively.

*(i) Ownership interests in leasehold land held for own use*

The Group holds land for its ordinary course of business. The Group is the registered owner of these property interests, including the whole or part of undivided share in the underlying land. Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease. These payments vary from time to time and are payable to the relevant government authorities.

*(ii) Other properties leased for own use*

The Group has obtained the right to use other properties through tenancy agreements. The leases typically run for an initial period of 2 to 5 years.

*(iii) Other leases*

The Group leases production plant, machinery and office equipment under leases expiring from 1 to 5 years. Some leases include an option to renew the lease when all terms are renegotiated, while some include an option to purchase the leased equipment at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

### (b) The analysis of the classification of property, plant and equipment as follows:

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Property, plant and equipment | **548,020** | 811,682 |
| Right-of-use assets | **353,550** | 424,584 |
| | **901,570** | 1,236,266 |

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### (c) Impairment loss

The Group has been experiencing significant drop in revenue and gross loss in certain subsidiaries engaged in renewable energy projects as (i) no new garbage was delivered to the landfill site, while the existing landfill gas is not sufficient to support the operation of generators resulting in the cessation of power generation; and (ii) an expected decrease in new garbage delivered to the landfill sites, which caused the volume of landfill gas collected and the electricity generated less than expected; which the operating costs continued to increase.

The management of the Group therefore performed an impairment review of the recoverable amount related to these subsidiaries. For the purposes of impairment testing, the recoverable amount of property, plant and equipment, including right-of-use assets, of these subsidiaries were allocated to their respective cash-generating unit ("CGU") of collection and utilisation of landfill gas.

In performing the impairment testing, the directors of the Company had also made reference to valuation performed by independent professional valuers.

The recoverable amount of the relevant cash-generating units of approximately HK$417,398,000 (equivalent to RMB372,843,000) (2021: HK$1,621,709,000 (equivalent to RMB1,325,901,000)) was determined on the basis of value-in-use calculations. Value-in-use calculations was based on the discount rate of 11.00%–13.65% (2021: 10%–14%) and cash flow projections prepared from financial forecasts approved by the management for the next five years. The cash-generating unit cash flows beyond the 5-year period were extrapolated using a growth rate of 2%–3% (2021: 0%–2%). Other key assumptions for the value-in-use calculation related to the estimation of cash inflows/outflows which included budgeted sales and expected gross margins during the budget period which had been determined based on past performance and management's expectations for the market development.

The directors of the Company engaged AVISTA Valuation Advisory Limited ("AVISTA") and Peak Vision Appraisals Limited ("Peak Vision"), to perform a valuation of these property, plant and equipment, including right-of-use assets, in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA and Peak Vision, impairment losses of approximately HK$14,785,000 (equivalent to RMB12,688,000) (2021: HK$43,896,000 (equivalent to RMB36,434,000)) was recognised during the years.

Impairment losses of approximately HK$13,490,000 (equivalent to RMB11,577,000) (2021: HK$30,799,000 (equivalent to RMB25,563,000)) and approximately HK$1,295,000 (equivalent to RMB1,111,000) (2021: HK$13,097,000 (equivalent to RMB10,871,000)) have been recognised in property, plant and equipment and right-of-use assets respectively.

## 17. CONCESSION INTANGIBLE ASSETS

As further explained in the accounting policy for "service concession arrangements" set out in note 3(j) to the consolidated 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** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Cost** | | |
| At 1 January | **936,529** | 1,107,657 |
| Additions | **101,300** | 60,087 |
| Additions — interest capitalised | **8,413** | 5,405 |
| Acquisition through business combination | **1,095** | – |
| Disposals | **(597)** | (2,936) |
| Disposal of subsidiaries | **(33,440)** | (257,671) |
| Exchange realignment | **(74,595)** | 23,987 |
| At 31 December | **938,705** | 936,529 |
| **Accumulated amortisation and Impairment** | | |
| At 1 January | **330,258** | 316,528 |
| Provided for the year | **51,005** | 51,162 |
| Disposal of subsidiaries | **(16,907)** | (41,667) |
| Eliminated on disposal | **(467)** | (2,596) |
| Exchange realignment | **(29,571)** | 6,831 |
| At 31 December | **334,318** | 330,258 |
| **Carrying values** | | |
| At 31 December | **604,387** | 606,271 |

## 17. CONCESSION INTANGIBLE ASSETS *(Continued)*

### Receivables under service concession arrangements

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Receivables under service concession arrangements | **13,254** | 17,557 |
| Impairment | **–** | – |
| | **13,254** | 17,557 |
| Portion classified as current assets | **(2,459)** | (3,076) |
| Non-current portion | **10,795** | 14,481 |

The subsidiaries of the Group, Yichun Water Industry Group Co., Ltd* ("Yichun Water") and Linyi Fenghuang Water Industry Co., Ltd* ("Linyi Fenghuang") entered into service concession arrangements with the respective local government whereby the above subsidiaries are required to build the infrastructure of water supply plant and were granted with an exclusive operating right for provision of water supply services to the public users for a period of 30 years commencing from the operation of the respective water supply plant. On 11 October 2022, the Group disposed its interests in Linyi Fenghuang and Linyi Fenghuang ceased to be a subsidiary of the Group (note 38).

The subsidiaries of the Group, Yichun Fangke Sewage Treatment Company Limited* ("Yichun Fangke"), Jining City Haiyuan Water Treatment Company Limited* ("Jining Haiyuan"), Jining City Haisheng Water Treatment Company Limited* ("Jining Haisheng") and Foshan City Gaoming Huaxin Sewage Treatment Company Limited* ("Gaoming Huaxin") entered into service concession arrangements with the respective local government whereby the above subsidiaries are required to build the infrastructure of sewage treatment plant and were granted with an exclusive operating right for provision of sewage treatment services to the public users for a period ranging from 25 years to 29 years, commencing from the operation of the respective waste treatment plant.

The subsidiaries of the Group, Fushun Shifang Bioenergy Limited* ("Fushun Shifang"), Chengdu City Green State Renewable Energy Co., Limited* ("Chengdu City Green State") and Chongqing Camda New Energy Equipment Company Limited* ("Chongqing Camda") entered into the service concession arrangement with the respective local government whereby the above subsidiaries are required to build the infrastructure of electricity plant and were granted with an exclusive operating right for provision of electricity services to the respective local government for a period of 6 years, 10.5 years and 19.5 years respectively commencing from the operation of respective electricity plant.

Amortisation for the above concession intangible assets has been provided on a straight-line basis over the remaining terms of the operating rights since commencement of operations. The receipt from these service concession arrangements, are contingent on the extent that public uses the services.

For the year ended 31 December 2022, the Group has recognised service concession construction revenue of approximately HK$102,543,000 (2021: HK$60,952,000) and profit of approximately HK$11,259,000 (2021: HK$8,003,000) during the construction periods of the service concession periods.

## 17. CONCESSION INTANGIBLE ASSETS *(Continued)*

**Receivables under service concession arrangements** *(Continued)*

The recoverable amounts of the CGUs under water supply and sewage treatment which contain concession intangible assets is determined by using value-in-use calculation with reference to the valuation performed by AVISTA and Peak Vision. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and pre-tax discount rate of 10.50%–13.65%% (2021: 10%–12%). Cash flows beyond the five-year period have been extrapolated using a steady 2%–3%% (2021: 2%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry.

* The English name is for identification purpose only.

## 18. INVESTMENT PROPERTIES

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **At fair value** | | |
| At 1 January | **12,280** | 94,331 |
| Reclassified from property, plant and equipment during the year | **210,803** | 231 |
| Disposal of subsidiaries | **(1,816)** | (85,654) |
| Fair value recognised in revaluation reserve | **1,249** | 2,299 |
| Fair value gain recognised for the year | **585** | 36 |
| Exchange realignment | **(9,422)** | 1,037 |
| At 31 December | **213,679** | 12,280 |

The Group leases out investments properties under operating leases. The leases typically run for an initial period of 1 to 20 years. None of the leases include variable lease payments.

**Fair value measurement of properties**

*(i) Fair value hierarchy*

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

## 18. INVESTMENT PROPERTIES *(Continued)*

**Fair value measurement of properties** *(Continued)*

*(i) Fair value hierarchy (Continued)*

| **2022** | **Fair value at 31 December HK$'000** | **Fair value measurements 31 December categorised into Level 1 HK$'000** | **Level 2 HK$'000** | **Level 3 HK$'000** |
|---|---|---|---|---|
| Recurring fair value measurement | | | | |
| Investment properties: | | | | |
| — Commercial — PRC | **213,679** | **–** | **–** | **213,679** |

| 2021 | Fair value at 31 December HK$'000 | Fair value measurements 31 December categorised into Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 |
|---|---|---|---|---|
| Recurring fair value measurement | | | | |
| Investment properties: | | | | |
| — Commercial — PRC | 12,280 | – | – | 12,280 |

During the year ended 31 December 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties were revalued at 31 December 2022. The valuations were carried out by AVISTA and Peak Vision who have recent experience in the location and category of properties being valued. The Company's directors have discussion with the valuer on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

The fair value of the investment properties has been arrived by adopting the income method by taking into account the net rental income of the property achievable in the existing market with due allowance for the reversionary income potential of the leases. Rental income achievable are analysed in order to arrive at fair capital values.

## 18. INVESTMENT PROPERTIES *(Continued)*

**Fair value measurement of properties** *(Continued)*

*(ii) Information about Level 3 fair value measurements*

| | Valuation techniques | Unobservable input | Range |
|---|---|---|---|
| **2022** | | | |
| Investment properties | | | |
| Commercial — PRC | Income approach (term and reversionary method) | Term and reversionary yield | 5%–7% |
| **2021** | | | |
| Investment properties | | | |
| Commercial — PRC | Income approach (term and reversionary method) | Term and reversionary yield | 5% |

The fair value of investment properties located in the PRC at 31 December 2022 is determined by using income approach (term and reversionary method) which largely used observable inputs (e.g. market rent, yield, etc) and taking into account on term yield to account for the risk upon reversionary and the estimation in vacancy rate after expiry of current lease. The higher the vacancy rate and term and reversionary yield, the lower the fair value.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| Investment properties — Commercial — PRC | | |
| At 1 January | **12,280** | 94,331 |
| Reclassified from property, plant and equipment during the year | **210,803** | 231 |
| Disposal of subsidiaries | **(1,816)** | (85,654) |
| Fair value recognised in revaluation reserve | **1,249** | 2,299 |
| Net gain from a fair value adjustment recognised in change in fair value of investment property in profit or loss | **585** | 36 |
| Exchange realignment | **(9,422)** | 1,037 |
| At 31 December | **213,679** | 12,280 |

Exchange adjustment of investment property are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

## 19. OTHER INTANGIBLE ASSETS

| | Goodwill<br>HK$'000 | Exclusive rights of collection and utilisation of landfill gas<br>HK$'000 | Technology<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2021 | 295,817 | 335,178 | – | 630,995 |
| Acquisition of exclusive rights | – | 132 | – | 132 |
| Acquisition of a subsidiary | 22 | 2,286 | – | 2,308 |
| Exchange realignment | 8,691 | 9,892 | – | 18,583 |
| At 31 December 2021 and 1 January 2022 | **304,530** | **347,488** | **–** | **652,018** |
| Acquisition of exclusive rights | **–** | **101** | **–** | **101** |
| Acquisition of subsidiaries | **9,416** | **7,034** | **2,659** | **19,109** |
| Exchange realignment | **(25,927)** | **(26,786)** | **(38)** | **(52,751)** |
| At 31 December 2022 | **288,019** | **327,837** | **2,621** | **618,477** |
| **Accumulated amortisation and impairment** | | | | |
| At 1 January 2021 | 251,659 | 171,827 | – | 423,486 |
| Amortisation | – | 25,128 | – | 25,128 |
| Impairment loss recognised for the year | 7,715 | 4,913 | – | 12,628 |
| Exchange realignment | 7,509 | 5,497 | – | 13,006 |
| At 31 December 2021 and 1 January 2022 | **266,883** | **207,365** | **–** | **474,248** |
| Amortisation | **–** | **21,657** | **130** | **21,787** |
| Impairment loss recognised for the year | **22** | **1,480** | **–** | **1,502** |
| Exchange realignment | **(22,606)** | **(18,478)** | **(5)** | **(41,089)** |
| At 31 December 2022 | **244,299** | **212,024** | **125** | **456,448** |
| **Carrying values** | | | | |
| At 31 December 2022 | **43,720** | **115,813** | **2,496** | **162,029** |
| At 31 December 2021 | 37,647 | 140,123 | – | 177,770 |

(i) The exclusive rights acquired upon acquisition of subsidiaries were initially recognised at fair value at the acquisition date. The exclusive rights acquired separately were initially recognised at cost. Amortisation expense for the year ended 31 December 2022 was approximately HK$21,787,000 (2021: HK$25,128,000), of which approximately HK$20,842,000 (2021: HK$23,165,000) and approximately HK$945,000 (2021: HK$1,963,000) were recorded into cost of sales and administrative expenses, respectively.

## 19. OTHER INTANGIBLE ASSETS *(Continued)*

### Impairment test on goodwill

For the purposes of impairment testing, goodwill have been allocated to nineteen (2021: fourteen) individual cash-generating units ("CGUs"). The carrying amounts of goodwill (net of accumulated impairment losses) at 31 December 2022 and 2021 allocated to these units are as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **Collection and utilisation of landfill gas** | | |
| Shenzhen City Li Sai Industrial Development Limited* ("Shenzhen Li Sai") | **11,607** | 12,681 |
| Datang Huayin Chenzhou Environmental Power Company Limited* ("Chenzhou Environmental") | **–** | – |
| Datang Huayin Heng Yang Environmental Power Company Limited* ("Heng Yang Environmental") | **128** | 140 |
| Baoji City Electric Power Development Co., Limited* ("Baoji") | **1,352** | 1,478 |
| Chongqing Camda New Energy Equipment Company Limited* ("Chongqing Camda") | **2,383** | 2,604 |
| Ningbo Qiyao New Energy Company Limited* ("Ningbo Qiyao") | **–** | – |
| Datang Huayin Xiangtan Environmental Electricity Generation Company Limited* ("Datang Huayin Xiangtan") | **1,116** | 1,219 |
| Shandong Qiyao New Energy Company Limited* ("Shandong Qiyao") | **–** | – |
| Chengdu City Green State Renewable Energy Co., Limited* ("Chengdu City Green State") | **11,778** | 12,870 |
| Dongyang Grand Energy Co., Ltd.* ("Dongyang Grand") | **5,370** | 5,867 |
| Guangxi Ruirong Energy Technology Co., Limited* ("Guangxi Ruirong") | **702** | 766 |
| Huangshi City Hangwei Intelligence Energy Co., Ltd.* ("Huangshi City Hangwei") | **–** | 22 |
| Fushun Shifang Bioenergy Limited* (Fushun Shifang") | **17** | – |
| Zhengzhou Xinguan Energy Development Company Limited* ("Zhengzhou Xinguan") | **1** | – |
| Taiyuan Yuantong Bioenergy Limited* ("Taiyuan Yuantong") | **447** | – |
| Shandong Yixin Water Clean Energy Limited* ("Shandong Yixin") | **95** | – |
| **Water supply and sewage treatment and related technology** | | |
| Onfar International Limited ("Onfar") | **–** | – |
| Jining City Haiyuan Water Treatment Company Limited* ("Jining Haiyuan") | **–** | – |
| Anchor Environmental & Energy Technology (Shanghai) Co., Ltd.* ("Anchor") | **8,724** | – |
| | **43,720** | 37,647 |

* The English name is for identification purpose only.

## 19. OTHER INTANGIBLE ASSETS *(Continued)*

### Impairment test on goodwill *(Continued)*

The Group tests goodwill annually for impairment, or more frequently when there is indication that the unit may be impaired. In assessing the need for impairment of goodwill, the Group estimates the recoverable amount of individual CGU to which goodwill has been allocated by reference to, amongst other things, the existing operations, and future prospects of the CGUs. Accordingly, the Group recognised impairment losses with an aggregate amount of approximately HK$244,299,000 (2021: HK$266,883,000) at 31 December 2022 in relation to goodwill arising on acquisition of the subsidiaries.

The basis of the recoverable amount of the CGUs and the major underlying assumptions are summarised below:

### Collection and utilisation of landfill gas

The recoverable amount of the CGUs under the collection and utilisation of landfill gas is determined based on value-in-use calculations with reference to valuation performed by AVISTA and Peak Vision. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2%–3% (2021: 0%–2%) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 11.00%–13.65% (2021: 12%–14%). The discount rates used are pre-tax and reflect specific risks relating to the relevant industry.

The recoverable amount of the CGUs at 31 December 2022 was approximately HK$904,604,000 (RMB808,043,000) (2021: HK$1,045,423,000 (RMB854,732,000)).

During the years ended 31 December 2022 and 2021, the Group has been experiencing significant drop in revenue and gross loss in certain subsidiaries engaged in renewable energy projects as (i) no new garbage was delivered to the landfill site, while the existing landfill gas is not sufficient to support the operation of generators resulting in the cessation of power generation; and (ii) an expected decrease in new garbage delivered to the landfill sites, which caused the volume of landfill gas collected and the electricity generated less than expected; which the operating costs continued to increase.

Impairment losses of approximately HK$22,000 (equivalent to RMB19,000 (2021: HK$7,715,000 (equivalent to RMB6,403,000)) and approximately HK$1,480,000 (equipment to RMB1,270,000) (2021: HK$4,913,000 (equivalent to RMB4,078,000)) have been recognised in goodwill and exclusive rights of collection and utilisation of landfill gas respectively.

### Water supply and sewage treatment

No further impairment charge arose during the years ended 31 December 2022 and 2021 as impairment on the goodwill had been fully provided in the previous years.

## 20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER COMPREHENSIVE INCOME

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Listed equity securities, at fair value | **3,843** | 4,430 |
| Unlisted fund investments, at fair value | **30,115** | 16,328 |
| | **33,958** | 20,758 |
| Classified as: | | |
| Financial assets at fair value through profit or loss | | |
| — Current | **30,115** | 16,687 |
| Financial assets at fair value through other comprehensive income | | |
| — Non-current | **3,843** | 4,071 |
| | **33,958** | 20,758 |

The fair values of the above listed securities are determined based on the quoted market bid prices available on the Stock Exchange.

The unlisted fund investments represented investments in funds in the PRC. Details of fair value measurement are set out in note 6(d).

## 21. INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2022. The class of shares held is ordinary, unless otherwise stated.

| Name of company | Place of establishment/ incorporation and business | Particulars of issued and paid up share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| | | | Directly | Indirectly | | |
| Billion City Investments Limited | British Virgin Islands ("BVI")/ Hong Kong | US$1 | 100% | – | Investment holding | Private limited liability company |
| Onfar International Limited ("Onfar") | BVI/Hong Kong | US$100 | – | 100% | Investment holding | Private limited liability company |
| Yichun Water Industry Group Co., Limited* ("Yichun Water") | PRC | RMB45,500,000 | – | 51% | Provision of water supply and installation of water supply facilities | Chinese foreign equity joint venture |
| Yichun Fangke Sewage Treatment Company Limited* ("Yichun Fangke") | PRC | RMB115,000,000 | – | 54.33% | Sewage treatment | Domestic enterprise |
| Yichun City Water Supply Engineering Limited* | PRC | RMB5,000,000 | – | 100% | Installation of water supply facilities | Domestic enterprise |
| Yichun Kun Lun Information Technology Company Limited* ("Yichun Kun Lun") | PRC | RMB2,000,000 | – | 100% | Information services | Domestic enterprise |
| Jiangxi Dekang Purified Water Company Limited* | PRC | RMB5,000,000 | – | 100% | Exploitation, production and sale of purified and drinking system | Domestic enterprise |
| Jiangxi Dekang Environmental Testing and Development Limited* | PRC | RMB5,000,000 | – | 100% | Environmental testing and product testing | Domestic enterprise |
| Nourish Gain Investments Limited | BVI/Hong Kong | US$1 | 100% | – | Investment holding | Private limited liability company |
| China Ace Investment Limited | Hong Kong | HK$1 | – | 100% | Investment holding | Private limited liability company |

## 21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2022. The class of shares held is ordinary, unless otherwise stated. (Continued)

| Name of company | Place of establishment/ incorporation and business | Particulars of issued and paid up share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| | | | Directly | Indirectly | | |
| Jining City Haiyuan Water Treatment Company Limited* ("Jining Haiyuan") | PRC | RMB40,000,000 | – | 70% | Sewage treatment | Chinese foreign equity joint venture |
| Swan (Huizhou) Investment Company Limited* | PRC | US$33,568,000 | – | 100% | Investment holding | Wholly-owned foreign enterprise |
| Huizhou Swan Heng Chang Property Development Company Limited* | PRC | RMB53,247,000 | – | 100% | Property development | Domestic enterprise |
| China Water Industry (HK) Limited | Hong Kong | HK$1 | – | 100% | Investment holding | Private limited liability company |
| Shenzhen Haisheng Environmental Sci-Tech Company Limited* | PRC | RMB15,802,400 | – | 100% | Installation of water suppliers facilities | Wholly-owned foreign enterprise |
| Nanjing Feng Shang New Technology Limited Liability Company* ("Nanjing Feng Shang") (note ii) | PRC | RMB10,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| New China Water (Nanjing) Renewable Resources Investment Company Limited* ("New China Water (Nanjing)") | PRC | US$82,880,000 | – | 96.13% | Exploitation, generation and sale of renewable energy | Non-wholly-owned foreign enterprise |
| Changsha New China Water Environmental Technology Limited* (Formerly known as Changsha Huiming Recycling Resources Technology Limited) | PRC | RMB50,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Shenzhen City Li Sai Industrial Development Limited* ("Shenzhen Li Sai") | PRC | RMB50,000,000 | – | 88% | Exploitation, generation and sale of renewable energy | Domestic enterprise |

## 21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2022. The class of shares held is ordinary, unless otherwise stated. (Continued)

| Name of company | Place of establishment/ incorporation and business | Particulars of issued and paid up share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| | | | Directly | Indirectly | | |
| Shenzhen City New China Water Environmental Technology Limited* ("Shenzhen New China Water") | PRC | RMB80,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Qingyuan City Greenspring Environmental Technology Limited* | PRC | RMB30,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Hunan Huiming Environmental Technology Limited* ("Hunan Technology") | PRC | RMB18,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Hunan Liuyang New China Water Environmental Technology Limited* (Formerly known as Hunan Feng Ming Energy Technology Limited) | PRC | RMB5,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Wuzhou City China Water New Renewable Resources Company Limited *("Wuzhou New China Water") (note i) | PRC | RMB15,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Datang Huayin Chenzhou Environmental Power Company Limited* ("Chenzhou Environmental") | PRC | RMB5,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Datang Huayin Heng Yang Environmental Power Company Limited* ("Heng Yang Environmental") | PRC | RMB4,100,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Baoji City Electric Power Development Co., Ltd* (Baoji") | PRC | RMB10,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |

## 21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2022. The class of shares held is ordinary, unless otherwise stated. (Continued)

| Name of company | Place of establishment/ incorporation and business | Particulars of issued and paid up share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| | | | Directly | Indirectly | | |
| Chongqing Camda New Energy Equipment Company Limited* ("Chongqing Camda") | PRC | RMB20,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Hainan Camda New Energy Equipment Company Limited* ("Hainan Camda") | PRC | RMB10,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| New China Water (Nanjing) Carbon Company Limited* | PRC | RMB45,800,000 | – | 100% | Property development | Domestic enterprise |
| New China Water (Nanjing) Energy Company Limited* | PRC | RMB53,000,000 | – | 100% | Property development | Domestic enterprise |
| New China Water (Hexian) Recycling Resources Technology Limited* | PRC | RMB14,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Yichun City New China Water Energy Technology Limited* | PRC | RMB15,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Shenzhen City New China Water Electric Power Limited* | PRC | RMB30,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Ningbo Qiyao New Energy Company Limited* (Ningbo Qiyao") | PRC | RMB8,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Datang Huayin Xiangtan Environmental Electricity Generation Company Limited* ("Datang Huayin Xiangtan") | PRC | RMB10,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |

## 21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2022. The class of shares held is ordinary, unless otherwise stated. (Continued)

| Name of company | Place of establishment/ incorporation and business | Particulars of issued and paid up share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| | | | Directly | Indirectly | | |
| Xinhua New China Water Environmental Technology Limited* | PRC | RMB4,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Shandong Qiyao New Energy Company Limited* ("Shandong Qiyao") | PRC | RMB7,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Anqiu City New China Water Environmental Technology Limited* | PRC | RMB12,000,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Jining City Haisheng Water Treatment Company Limited* | PRC | RMB19,000,000 | – | 100% | Sewage treatment | Domestic enterprise |
| Fengcheng City New China Water Energy Technology Limited* | PRC | RMB15,850,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Chengdu City Green State Renewable Energy Co., Limited* ("Chengdu City Green State") | PRC | RMB47,000,000 | – | 49% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Zhangjiakou New China Water Energy Technology Limited* | PRC | RMB16,500,000 | – | 70% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Hainan Danzhou New China Water Environmental Technology Limited* | PRC | RMB3,500,000 | – | 100% | Exploitation, generation and sale of renewable energy | Domestic enterprise |
| Hong Kong New China Water Renewable Resources Limited | Hong Kong | HK$100 | – | 100% | Investment holding | Private limited liability company |
| Conquer Asia Development Limited | Hong Kong | HK$100 | – | 100% | Investment holding | Private limited liability company |

## 21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2022. The class of shares held is ordinary, unless otherwise stated. (Continued)

| Name of company | Place of establishment/ incorporation and business | Particulars of issued and paid up share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| | | | Directly | Indirectly | | |
| Happy Hour Limited | BVI/Hong Kong | US$1 | 100% | – | Investment holding | Private limited liability company |
| Mascot Industries Limited | Hong Kong | HK$2 | – | 100% | Investment holding | Private limited liability company |
| Smart Giant Group Limited | BVI/Hong Kong | US$1 | 100% | – | Investment holding | Private limited liability company |
| Blue Mountain Hong Kong Group Limited | Hong Kong | HK$1,803,069 | – | 100% | Investment holding | Private limited liability company |
| Swift Surplus Holdings Limited | BVI/Hong Kong | US$100 | 100% | – | Investment holding | Private limited liability company |
| Mark Profit Group Holdings Limited | Hong Kong | HK$1 | – | 100% | Investment holding | Private limited liability company |
| Guangzhou Hyde Environmental Protection Technology Co., Ltd* | PRC | HK$12,000,000 | – | 100% | Investment holding | Wholly-owned foreign enterprise |
| Foshan City Gaoming Huaxin Sewage Treatment Company Limited* ("Gaoming Huaxin") | PRC | RMB10,000,000 | – | 70% | Sewage treatment | Domestic enterprise |
| Bonus Raider Investments Limited | BVI/Hong Kong | US$1 | 100% | – | Investment holding | Private limited liability company |
| Bloom Profit Investment Limited | Hong Kong | HK$100 | – | 100% | Investment holding | Private limited liability company |
| Hong Kong Glass Resources Limited | Hong Kong | HK$100 | – | 100% | Glass Recycling | Private limited liability company |
| Hong Kong Glass Reborn Limited | Hong Kong | HK$5,000,000 | – | 70% | Glass Recycling | Private limited liability company |

## 21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2022. The class of shares held is ordinary, unless otherwise stated. (Continued)

| Name of company | Place of establishment/ incorporation and business | Particulars of issued and paid up share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| | | | Directly | Indirectly | | |
| South Top Investment Limited | Hong Kong | HK$1 | 100% | – | Provision of administrative services | Private limited liability company |
| Neutral Crown Holdings Limited | BVI/Hong Kong | US$100 | 100% | – | Investment holding | Private limited liability company |
| Victory Strategy Investment Limited | Hong Kong | HK$2,727,904 | – | 100% | Investment holding | Private limited liability company |
| PT. CWI Energy Indonesia | Indonesia | IDR55,000,000,000 | – | 94% | Exploitation generation and sale of renewable energy | Private limited liability company |
| Hainan Sanya New China Water Environmental Technology Limited* | PRC | RMB9,000,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Chenzhou New China Water Environmental Technology Limited* | PRC | RMB1,500,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Swan (Huizhou) Environmental Technology Company Limited* | PRC | RMB305,650 | – | 100% | Dormant | Domestic enterprise |
| Dongyang Grand Energy Co., Ltd.* | PRC | RMB10,000,000 | – | 90% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Haicheng City New China Water Environmental Technology Limited* | PRC | RMB3,500,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Anlu City New China Water Environmental Technology Limited* | PRC | RMB7,390,000 | – | 90% | Exploitation generation and sale of renewable energy | Domestic enterprise |

## 21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2022. The class of shares held is ordinary, unless otherwise stated. (Continued)

| Name of company | Place of establishment/ incorporation and business | Particulars of issued and paid up share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| | | | Directly | Indirectly | | |
| Laizhou City New China Water Environmental Technology Limited* | PRC | RMB26,000,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Zhijiang Xinzhongshui Chufeng Environmental Protection Technology Co., Ltd.* | PRC | RMB8,363,200 | – | 51% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Guangxi Ruirong Energy Technology Co., Ltd.* | PRC | RMB10,000,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Hainan Lingao Greenspring Environmental Technology Limited* | PRC | RMB5,200,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Gaizhou City New China Water Environmental Technology Limited* | PRC | RMB5,000,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Guangzhou China Water Renewable Environmental Technology Limited* | PRC | RMB300,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Zhuzhou New China Water Environmental Protection Technology Limited* | PRC | RMB2,000,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Ankang New China Water Environmental Protection Technology Limited* | PRC | RMB3,610,000 | – | 100% | Dormant | Domestic enterprise |
| Lianyuan City New China Water Environmental Protection Technology Limited* | PRC | RMB5,000,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |

## 21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2022. The class of shares held is ordinary, unless otherwise stated. (Continued)

| Name of company | Place of establishment/ incorporation and business | Particulars of issued and paid up share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| | | | Directly | Indirectly | | |
| Shanghang Greenspring Environmental Technology Limited* | PRC | RMB2,000,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Jiangxi Dekang Water Supply Company Limited* | PRC | RMB2,000,000 | – | 100% | Construction and management of secondary water supply facilities | Domestic enterprise |
| Jiangxi Dekang Property Management Limited* | PRC | RMB5,000,000 | – | 100% | Dormant | Domestic enterprise |
| Dingnan Greenspring Environmental Technology Limited* | PRC | RMB2,000,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Wuping Greenspring Environmental Technology Limited* | PRC | RMB2,000,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Huangshi City Hangwei Intelligent Energy Company Limited | PRC | RMB1,500,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Wafangdian Greenspring Environmental Technology Limited* | PRC | RMB1,120,000 | – | 100% | Dormant | Domestic enterprise |
| Shaowu City New China Water Environmental Technology Limited | PRC | RMB2,000,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Changting Greenspring Environmental Technology Limited* | PRC | RMB2,000,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Xiuyan China Water Biowass Electricity Limited* | PRC | RMB5,000,000 | – | 100% | Dormant | Domestic enterprise |

## 21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2022. The class of shares held is ordinary, unless otherwise stated. (Continued)

| Name of company | Place of establishment/ incorporation and business | Particulars of issued and paid up share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| | | | Directly | Indirectly | | |
| Jing Chuan China Water Renewable Environmental Technology Limited* | PRC | RMB5,000,000 | – | 100% | Dormant | Domestic enterprise |
| Xin Ning New China Water Biomass Electricity Limited* | PRC | RMB8,000,000 | – | 100% | Dormant | Domestic enterprise |
| Fushun Shifang Bioenergy Limited* | PRC | RMB3,000,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Xiao Yi City New China Water Environmental Technology Limited* | PRC | RMB10,000,000 | – | 100% | Dormant | Domestic enterprise |
| Zhengzhou Xinguan Energy Development Limited* | PRC | RMB12,000,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Taiyuan Yuantong Bioenergy Limited* | PRC | RMB13,050,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Shandong Yixin Water Clean Energy Limited* | PRC | RMB5,000,000 | – | 100% | Exploitation generation and sale of renewable energy | Domestic enterprise |
| Anchor Environmental & Energy Technology (Shanghai) Co., Ltd.* | PRC | RMB20,200,000 | – | 51% | Environmental protection equipment sales and environmental protection technical services | Domestic enterprise |
| RELE Environmental & Energy Technology (Shanghai) Co., Ltd.* | PRC | RMB50,000,000 | – | 51% | Environmental protection equipment sales and environmental protection technical services | Domestic enterprise |

## 21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2022. The class of shares held is ordinary, unless otherwise stated. (Continued)

| Name of company | Place of establishment/ incorporation and business | Particulars of issued and paid up share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| | | | Directly | Indirectly | | |
| Shanghai Mebena Membrane Technology Co., Ltd.* | PRC | RMB8,000,000 | – | 51% | Environmental protection equipment sales and environmental protection technical services | Domestic enterprise |
| Chengwu Ruili Aode Biomass Energy Limited* | PRC | RMB6,600,000 | – | 66% | Dormant | Domestic enterprise |
| New China Water (Nanjing) Property Management Limited* | PRC | RMB1,000,000 | – | 100% | Property development | Domestic enterprise |
| Huoqiu Huizhao Renewable Energy Technology Co., Ltd* | PRC | RMB25,000,000 | – | 60% | Dormant | Domestic enterprise |
| Kazuo China Water Environmental Technology Limited* | PRC | RMB5,000,000 | – | 100% | Dormant | Domestic enterprise |

* The English names are for identification purpose only.

Notes:

None of the subsidiaries has issued any debt securities subsisting at the end of 2022 and 2021 or at any time during the years ended 31 December 2022 and 2021.

## 21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following table lists out the information relating to each of the Group's subsidiaries which has material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

| | Yingtan Water Group | | Yichun Water Group | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| NCI percentage | **–** | – | **49%** | 49% |
| Current assets | **–** | – | **234,335** | 270,513 |
| Non-current assets | **–** | – | **437,147** | 414,235 |
| Current liabilities | **–** | – | **(227,990)** | (205,681) |
| Non-current liabilities | **–** | – | **(31,587)** | (38,134) |
| Net assets | **–** | – | **411,905** | 440,933 |
| Carrying amount of NCI | **–** | – | **201,833** | 216,057 |
| Revenue | **–** | 43,621 | **373,776** | 329,467 |
| Profit for the year | **–** | 23,269 | **50,932** | 42,810 |
| Total comprehensive income | **–** | 26,690 | **74,561** | 55,519 |
| Profit allocated to NCI | **–** | 11,042 | **24,957** | 20,977 |
| Dividend paid by the subsidiaries | **–** | – | **97,294** | – |
| Dividend paid to NCI | **–** | – | **49,875** | – |
| Cash flows (used in)/generated from operating activities | **–** | (4,223) | **(22,746)** | 72,099 |
| Cash flows used in investing activities | **–** | (22,621) | **(23,287)** | (75,867) |
| Cash flows (used in)/generated from financing activities | **–** | (747) | **(55,240)** | 12,189 |

## 22. INTERESTS IN ASSOCIATE

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Share of net assets | **2,483** | 2,852 |

All the Group's associate is unlisted corporate entity whose quoted market price is not available. All of this associate is accounted for using the equity method in the consolidated financial statements.

| Name of company | Place of establishment/ incorporation and business | Particulars of issued and paid up share capital/ registered capital | Attributable equity interest held by the Company Directly | Attributable equity interest held by the Company Indirectly | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| Ziyang Oasis Xinzhong Water Environmental Protection Technology Co., Ltd.* 資陽市綠州新中水環保科技有限公司 | PRC | Contributed capital | – | 49% | Exploitation, generation and sale of renewable energy | Domestic enterprise |

* The English names are for identification purpose only.

Aggregate information of associate that is not individually material:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Aggregate carrying amount of individually immaterial associate in the consolidated financial statements | **2,483** | 2,852 |
| Aggregate amounts of the Group's share of associate | | |
| (Loss)/profit for the year | **(133)** | 32,411 |
| Other comprehensive (loss)/income | **(236)** | 950 |
| Total comprehensive (loss)/income | **(369)** | 33,361 |

## 23. INTERESTS IN JOINT VENTURES

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Share of net assets | **21,512** | 23,831 |

All the Group's joint ventures are unlisted corporate entities whose quoted market price is not available. All of these joint ventures are accounted for using the equity method in the consolidated financial statements.

| Name of company | Place of establishment/ incorporation and business | Particulars of issued and paid up share capital/ registered capital | Attributable equity interest held by the Company Directly | Indirectly | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| Yichun Mingyue Mountain Fangke Sewage Treatment Co. Ltd.* 宜春市明月山方科污水處理有限公司 | PRC | Contributed capital | – | 65% | Sewage treatment services | Domestic enterprise |

* The English names are for identification purpose only.

Aggregate information of joint ventures that are not individually material:

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements | **21,512** | 23,831 |
| Aggregate amounts of the Group's share of the joint ventures: | | |
| Profit for the year | **784** | 640 |
| Other comprehensive loss | **(1,956)** | (638) |
| Total comprehensive (loss)/income | **(1,172)** | 2 |

## 24. INVENTORIES

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Properties under development | – | 214,592 |
| Raw materials | **67,055** | 64,137 |
| | **67,055** | 278,729 |

The analysis of the amount of inventories recognised as an expense is as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Carrying amount of inventories | **149,336** | 59,180 |

## 25. CONTRACT ASSETS AND CONTRACT LIABILITIES

### (a) Contract assets

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **Contract assets** | | |
| Arising from performance under construction contracts | **63,513** | 42,908 |

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Typical payment terms which impact on the amount of contract assets recognised are as follows:

The Group's construction contracts include payment schedules which require stage payments over the construction period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits as part of its credit risk management policies. The Group's entitlement to this final payment is conditional on the Group's work satisfactorily passing inspection.

## 25. CONTRACT ASSETS AND CONTRACT LIABILITIES *(Continued)*

### (b) Contract liabilities

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Contract liabilities | | |
| Construction contracts | | |
| Billings in advance of performance | **135,822** | 186,340 |
| Property developments | | |
| Forward sales deposits and instalments received | **–** | 186,830 |
| | **135,822** | 373,170 |

The revenue recognised during the year that was included in the contract liabilities balance of the beginning of the period amounted to approximately HK$281,635,000 (2021: HK$129,054,000).

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

— *Construction contracts*

When the Group receives a deposit before the construction work commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

— *Sales of properties*

The Group typically receives deposits from customers when they sign the sale and purchase agreement. This deposit is recognised as a contract liability until the properties are completed and legally assigned to the customer. The rest of the consideration is typically paid when legal assignment is completed.

— *Water supply services*

The Group typically receives deposits from clients in respect of the Group's water supply operation. This deposit is recognised as a contract liability until it is utilised.

## 26. TRADE AND OTHER RECEIVABLES

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Trade receivables | **735,402** | 678,978 |
| Less: Loss allowances | **(8,066)** | (7,353) |
| | **727,336** | 671,625 |
| Other receivables | **100,907** | 127,558 |
| Less: Loss allowances | **(43,044)** | (17,159) |
| | **57,863** | 110,399 |
| Loan receivables (note a) | **254,375** | 252,900 |
| Less: Loss allowances | **(204,992)** | (120,060) |
| | **49,383** | 132,840 |
| Deposits and prepayments (note b) | **123,359** | 154,206 |
| | **957,941** | 1,069,070 |
| Amounts due within one year included under current assets | **938,981** | 1,050,110 |
| Amounts due after one year included under non-current assets | **18,960** | 18,960 |
| | **957,941** | 1,069,070 |

(a) Apart from the loans to Top Vision of HK$43.6 million and other borrowers of HK$11.2 million which were fully impaired, included in loan receivables at 31 December 2022 were loan to eighteen (2021: seventeen) unrelated parties of HK$49,383,000 (2021: HK$132,840,000), which bear fixed interest rate ranging from 4% to 24% (2021: 4% to 24%) per annum. These parties have no recent history of default.

(b) Deposits and prepayments were mainly prepayments and tender deposits paid to independent third parties for construction projects.

The management of the Company expected that the recoverability of prepayment of approximately HK$120,000 (2021: HK$22,682,000) is uncertain. Accordingly, full impairment against the balances of prepayment was recognised at 31 December 2022.

## 26. TRADE AND OTHER RECEIVABLES *(Continued)*

At 31 December 2022, total bills received amounting to HK$1,244,000 (2021: HK$Nil) are held by the Group for future settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period and details are disclosed below. All bills received by the Group are with a maturity period of less than one year.

### Trade receivables

The Group allows an average credit period of 0 day to 180 days (2021: 0 day to 180 days) to its customers. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 6(a).

The aging analysis of the trade receivables, net of loss allowances, as at the end of the reporting period, based on invoice date which approximates the respective revenue recognition date, is as follows:

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Within 90 days | **115,801** | 134,601 |
| 91 to 180 days | **39,197** | 53,367 |
| 181 to 365 days | **129,875** | 82,161 |
| Over 1 year | **442,463** | 401,496 |
| | **727,336** | 671,625 |

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (note 3(o)(i)).

## 27. CASH HELD BY FINANCIAL INSTITUTIONS AND BANK BALANCES AND CASH AND OTHER CASH FLOW INFORMATION

**(a)** Cash held by financial institutions by the Group represents amounts deposited in financial institutions in Hong Kong carry interest rate ranging from 0% to 0.001% (2021: 0% to 0.001%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. Cash at banks earns interest at floating rates based on daily bank deposit rates.

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Cash held by financial institutions | **596** | 147 |
| Cash at bank and on hand | **183,851** | 291,211 |
| Cash and cash equivalents in the consolidated cash flow statement | **184,447** | 291,358 |

The overdrafts are subject to the fulfilment of covenants. If the Group were in breach of the covenants, the financial institutions should be entitled, without notice to the Group, to close the account and/or dispose of any or all securities held for or on behalf of the Group to settle all outstanding amounts owing to financial institutions (note 20). Total amount of approximately HK$596,000 (2021: HK$3,418,000) was held by the financial institutions.

At 31 December 2022, cash and cash equivalents situated in Mainland China amount to approximately HK$176,218,000 (2021: HK$288,082,000). Remittance of funds out of Mainland China is subject to relevant rules and regulations of foreign exchange control.

## 27. CASH HELD BY FINANCIAL INSTITUTIONS AND BANK BALANCES AND CASH AND OTHER CASH FLOW INFORMATION *(Continued)*

### (b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be classified in the Group's consolidated cash flow statement as cash flows from financing activities.

| | Bank borrowings HK$'000 | Other loans HK$'000 | Lease liabilities HK$'000 | Amounts due (from)/ to NCI HK$'000 | Amounts due (from)/to joint ventures HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2021** | 151,811 | 728,978 | 267,951 | 320 | 7,647 | 1,156,707 |
| **Changes from financing cash flows:** | | | | | | |
| Proceeds from new bank borrowings and other loans | 79,842 | – | – | – | – | 79,842 |
| Increase in lease liabilities | – | – | 153,170 | – | – | 153,170 |
| Repayment of bank borrowings and other loans | (56,743) | (265,616) | – | – | – | (322,359) |
| Loans from third parties | – | 18 | – | – | – | 18 |
| Repayment of loans from third parties | – | (205,265) | – | – | – | (205,265) |
| Loans from related parties | – | 240,000 | – | – | – | 240,000 |
| Capital element of lease rentals paid | – | – | (142,758) | – | – | (142,758) |
| Interest element of lease rentals paid | – | – | (21,107) | – | – | (21,107) |
| Decrease in amounts due to joint ventures | – | – | – | – | (5,863) | (5,863) |
| Interest paid | (3,958) | (50,171) | – | – | – | (54,129) |
| **Total changes from financing cash flows** | 19,141 | (281,034) | (10,695) | – | (5,863) | (278,451) |
| **Exchange adjustments** | 4,809 | (5,131) | 7,810 | 9 | 97 | 7,594 |
| **Other changes:** | | | | | | |
| Increase in lease liabilities | – | – | 2,388 | – | – | 2,388 |
| Finance charges on leases liabilities | – | – | 21,107 | – | – | 21,107 |
| Interest expenses | 3,958 | 59,580 | – | – | – | 63,538 |
| Loan set off | – | (25,027) | – | – | – | (25,027) |
| Disposal of subsidiaries | – | (95,789) | – | – | (1,881) | (97,670) |
| Total other changes | 3,958 | (61,236) | 23,495 | – | (1,881) | (35,664) |
| **At 31 December 2021** | 179,719 | 381,577 | 288,561 | 329 | – | 850,186 |

## 27. CASH HELD BY FINANCIAL INSTITUTIONS AND BANK BALANCES AND CASH AND OTHER CASH FLOW INFORMATION *(Continued)*

### (b) Reconciliation of liabilities arising from financing activities *(Continued)*

| | Bank borrowings HK$'000 | Other loans HK$'000 | Lease liabilities HK$'000 | Amounts due (from)/ to NCI HK$'000 | Amounts due (from)/to joint ventures HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2022** | 179,719 | 381,577 | 288,561 | 329 | – | 850,186 |
| **Changes from financing cash flows:** | | | | | | |
| Proceeds from new bank borrowings and other loans | 202,978 | – | – | – | – | 202,978 |
| Increase in lease liabilities | – | – | 186,280 | – | – | 186,280 |
| Repayment of bank borrowings and other loans | (78,225) | (223,970) | – | – | – | (302,195) |
| Loans from third parties | – | 209,968 | – | – | – | 209,968 |
| Repayment of loans from third parties | – | (7,986) | – | – | – | (7,986) |
| Loans from related parties | – | 52,000 | – | – | – | 52,000 |
| Repayment of loans from related parties | – | (205,000) | – | – | – | (205,000) |
| Capital element of lease rentals paid | – | – | (201,663) | – | – | (201,663) |
| Interest element of lease rentals paid | – | – | (23,561) | – | – | (23,561) |
| Decrease in amounts due to joint ventures | – | – | – | – | – | – |
| Decrease in amounts due to non-controlling shareholders | – | – | – | (3,774) | – | (3,774) |
| Interest paid | (8,587) | (48,710) | – | – | – | (57,297) |
| **Total changes from financing cash flows** | 116,166 | (223,698) | (38,944) | (3,374) | – | (150,250) |
| **Exchange adjustments** | (20,115) | (5,564) | (24,517) | 102 | – | (50,094) |
| **Other changes:** | | | | | | |
| Increase in lease liabilities | – | – | 23,151 | – | – | 23,151 |
| Finance charges on leases liabilities | – | – | 23,278 | – | – | 23,278 |
| Interest expenses | 8,587 | 48,710 | – | – | – | 57,297 |
| Lease modification | – | – | 80 | – | – | 80 |
| Acquisition of subsidiaries | – | – | 12,906 | 454 | – | 13,360 |
| Total other changes | 8,587 | 48,710 | 59,415 | 454 | – | 117,166 |
| **At 31 December 2022** | 284,357 | 201,025 | 284,515 | (2,889) | – | 767,008 |

## 28. ASSETS/(LIABILITIES) CLASSIFIED AS HELD FOR SALE

On 29 June 2018, New China Water (Nanjing), Renewable Resources Investment Company Limited ("New China Water (Nanjing), a non-wholly-owned subsidiary of the Group and 南京屹信航天科技有限公司 (the "Purchaser"), entered into a sale and purchase agreement whereby New China Water (Nanjing) agreed to sell its 100% equity interest in New China Water (Nanjing) Carbon Company Limited at a consideration of HK$81,300,000 (equivalent to RMB72,860,000). At 31 December 2022, the Group had received HK$55,190,000 (equivalent to RMB49,300,000) as a deposit, representing 68% of total consideration. During the years ended 31 December 2021 and 2022, with the COVID-19 pandemic, the construction work to be carried out by the Group had been affected and delayed, resulting in a delay in the completion of disposal. The construction work is expected to be delivered in 2023.

The assets attributable to a subsidiary expected to be sold within twelve months from the end of the reporting period were classified as assets held to sale as at 31 December 2022 and 2021. The carrying amount of the assets as at 31 December 2022 and 2021, which has been presented separately in the consolidated statement of financial position, is as follows:

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Assets held for sale | **74,153** | 51,395 |
| Liabilities held for sale | **(27,955)** | (11) |
| | **46,198** | 51,384 |

## 29. TRADE AND OTHER PAYABLES

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Trade payables | **195,177** | 173,865 |
| Receipts in advance | **22,390** | – |
| Construction payables | **78,501** | 193,104 |
| Interest payables | **5,672** | 3,329 |
| Accrued expenses | **17,338** | 29,711 |
| Guarantee deposits from a subcontractor | **913** | 1,304 |
| Sewage treatment fees received on behalf of certain government authorities | **332** | 4,008 |
| Other payables | **179,912** | 170,409 |
| Default claim payable | **8,959** | – |
| Contingent consideration payable | **–** | 1,343 |
| | **509,194** | 577,073 |
| Analyzed as: | | |
| Non-current | **21,371** | – |
| Current | **487,823** | 577,073 |
| | **509,194** | 577,073 |

## 29. TRADE AND OTHER PAYABLES *(Continued)*

The aging analysis of the trade payables as at the end of the reporting period based on invoice date is as follows:

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Within 30 days | **8,290** | 29,354 |
| 31 to 90 days | **75,434** | 50,298 |
| 91 to 180 days | **41,362** | 21,170 |
| 181 to 365 days | **17,786** | 16,888 |
| Over 1 year | **52,305** | 56,155 |
| | **195,177** | 173,865 |

The credit terms of trade payables vary according to the terms agreed with different suppliers. The Group has financial risk management policies in place to ensure that all payables are settled within the time frame agreed with the respective suppliers.

## 30. BANK BORROWINGS

At 31 December 2022, the bank borrowings were repayable as follows:

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Within one year or on demand | **60,602** | 73,833 |
| More than one year but within two years | **76,512** | 25,261 |
| More than two years but within five years | **105,736** | 77,903 |
| Over than five years | **41,507** | 2,722 |
| | **284,357** | 179,719 |
| Less: Amount due within one year shown under current liabilities | **(60,602)** | (73,833) |
| Amount due from one year shown under non-current liabilities | **223,755** | 105,886 |
| Secured | **273,162** | 177,359 |
| Unsecured | **11,195** | 2,360 |
| | **284,357** | 179,719 |

## 30. BANK BORROWINGS *(Continued)*

The exposure of the Group's loans is as follows:

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Fixed-rate loans | **183,921** | 15,517 |
| Variable-rate loans | **100,436** | 164,202 |
| | **284,357** | 179,719 |

The amounts due are based on the scheduled repayment dates as stipulated in the respective loan agreements.

All of the bank loans, including amounts repayable on demand, are carried at amortised cost.

Of the total bank borrowings as at 31 December 2022 and 2021, approximately HK$54,537,000 (equivalent to RMB48,715,000) (2021: HK$104,394,000 (equivalent to approximately RMB85,352,000) was secured by the Group's property, plant and equipment and right-of-use assets with total carrying amount of approximately HK$180,442,000 (2021: HK$185,766,000) and approximately HK$25,988,000 (2021: HK$64,008,000) respectively.

Notes:

(i) At 31 December 2022, bank borrowings of approximately RMB161,200,000 (equivalent to HK$180,463,000) is secured by corporate guarantees from thirteen non-wholly owned subsidiaries of the Company. It carries fixed interest rate at 5.08% per annum.

(ii) At 31 December 2022, bank borrowings of approximately RMB3,000,000 (equivalent to HK$3,359,000) is an unsecured loan. It carries variable interest rate at one-year Loan Prime Rate("LPR") published by the People's Bank of China plus 0.3% per annum.

(iii) At 31 December 2022, bank borrowings of approximately RMB1,800,000 (equivalent to HK$2,015,000) is secured by contractual right to receive the revenue generated by the subsidiary. It carries fixed interest rate at 3.85% per annum.

(iv) At 31 December 2022, bank borrowings of approximately RMB4,000,000 (equivalent to HK$4,478,000) is secured by corporate guarantees from the New China Water (Nanjing), a non-wholly owned subsidiary of the Company. It carries variable interest rate at one-year LPR published by the People's Bank of China plus 0.2% per annum.

(v) At 31 December 2022, bank borrowings of approximately RMB3,000,000 (equivalent to HK$3,359,000) is secured by corporate guarantees from the New China Water (Nanjing), a non-wholly owned subsidiary of the Company. It carries variable interest rate at one-year LPR published by the People's Bank of China plus 0.5% per annum.

(vi) At 31 December 2022, bank borrowings of approximately RMB476,000 (equivalent to HK$533,000) is secured by a personal guarantee from management of subsidiary. It carries fixed interest rate at 9.19% per annum.

## 30. BANK BORROWINGS *(Continued)*

Notes: (Continued)

(vii) At 31 December 2022, bank borrowings of approximately RMB507,000 (equivalent to HK$568,000) is secured by a personal guarantee from management of subsidiary. It carries fixed interest rate at 7.92% per annum.

(viii) At 31 December 2022, bank borrowing of approximately RMB31,000,000 (equivalent to HK$34,705,000) is secured by a corporate guarantee from the New China Water (Nanjing), a non-wholly owned subsidiary of the Company. It carries variable interest rate at above-five-year LPR published by the People's Bank of China minus 0.14% per annum.

(ix) Bank borrowings of approximately RMB9,000,000 (equivalent to HK$10,076,000) (2021: RMB14,000,000 (equivalent to HK$17,123,000)) is secured by corporate guarantees from the New China Water (Shenzhen), a non-wholly owned subsidiary of the Company and non-controlling shareholders of a subsidiary, personal guarantees from management of a subsidiary, property, plant and equipment with total carrying amount of approximately HK$14,236,000 (2021: HK$18,045,000). It carries variable interest rate at 6.10% (2021: 6.10%) per annum.

(x) Bank borrowings of approximately RMB305,000 (equivalent to HK$341,000) (2021: RMB1,000,000 (equivalent to HK$1,223,000)) is secured by a corporate guarantee from the New China Water (Nanjing), a non-wholly owned subsidiary of the Company. It carries fixed interest rate at 7.5% (2021: 7.5%) per annum.

(xi) Bank borrowings of approximately RMB2,700,000 (equivalent to HK$3,023,000) (2021: RMB4,500,000 (equivalent to HK$5,504,000)) is secured by a corporate guarantee from the Hainan Sanya New China Water Environmental Technology Limited, a non-wholly owned subsidiary of the Company, of the property, plant and equipment with total carrying amount of approximately HK$6,431,000 (2021: HK$6,809,000). It carries variable interest rate at 4.75% (2021: 4.75%) per annum.

(xii) Bank borrowings of approximately RMB37,015,000 (equivalent to HK$41,438,000) (2021: RMB41,985,000 (equivalent to HK$51,352,000)) is secured by a corporate guarantee from the Huizhou Swan Heng Chang Property Development Company Limited, a wholly owned subsidiary of the Company, of the property, plant and equipment and right-of-use assets with total carrying amount of approximately HK$159,775,000 and HK$25,988,000 (2021: HK$160,925,000 and HK$29,045,000) respectively and wholly owned subsidiary of the Company equity interest in Swan (Huizhou) Investment Company Limited. It carries variable interest rate at 7.84% (2021: 7.84%) per annum.

## 31. OTHER LOANS

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Other loans comprise of: | | |
| Government loans (note (i)) | **2,187** | 2,391 |
| Loans from unrelated parties (note (ii)) | **95,388** | 44,770 |
| Loan from related party (note 46(a)) | **87,000** | 240,000 |
| Fixed coupon bonds (note (iii)) | **16,450** | 94,416 |
| | **201,025** | 381,577 |
| Analysed as: | | |
| Secured | **70,000** | 270,333 |
| Unsecured | **131,025** | 111,244 |
| | **201,025** | 381,577 |

At 31 December 2022, the other loans were repayable as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Overdue | **–** | 14,438 |
| On demand or within one year | **184,519** | 351,295 |
| More than one year but within two years | **16,506** | – |
| More than two years but within five years | **–** | 15,844 |
| More than five years | **–** | – |
| | **201,025** | 381,577 |
| Less: Amount due within one year shown under current liabilities | **(184,519)** | (365,733) |
| Amount due from one year shown under non-current liabilities | **16,506** | 15,844 |

Notes:

(i) At 31 December 2022, government loans of approximately HK$1,017,000 (2021: HK$1,111,000) and HK$1,170,000 (2021: HK$1,278,000) are fixed-rate borrowings and interest-free borrowings, respectively. The fixed-rate borrowings carried interest at 5.2% (2021: 5.2%) per annum.

At 31 December 2022, government loans of approximately HK$Nil was due for repayment on or before 31 December 2022 (2021: HK$Nil which was due for repayment on or before 31 December 2021) on demand or within one year (2021: one year).

## 31. OTHER LOANS *(Continued)*

Notes: (Continued)

(ii) (a) Loan from unrelated individuals of approximately HK$14,378,000 (2021: HK$7,986,000) are fixed-rate borrowings carrying interest at 0% to 18% (2021: 2% to 5%) per annum and due for repayment on or before 31 December 2023 (2021: on or before 23 June 2021).

(b) At 31 December 2019, the subsidiary of the Group, Jining City Haisheng Water Treatment Company Limited and 揚州上善建設有限公司 entered into a loan agreement approximately HK$33,900,000 (equivalent to RMB29,800,000) was fixed rate borrowing carrying interest at 24% per annum regard to the construction project in Jining City. This loan was fully repaid during the year.

(iii) (a) Bond I

On 25 October 2017, the Company entered into the placing agreement with the placing agent, for the purpose of arranging independent placees to subscribe for the bonds in aggregate principal amount of up to HK$100,000,000 within the placing period. The Company had completed the issuance of the bonds on 13 December 2017. The bonds will mature in 3 years from the date of issuance. The interest rate is 6% per annum, and payable semi-annually in arrears.

At 31 December 2021, Bond I was fully settled.

(b) Bond II

On 4 December 2017, the Company entered into the placing agreement with the placing agent, for the purpose of arranging independent placees to subscribe for the bonds in aggregate principal amount of not less than HK$100,000,000 within the placing period, which ended on 31 May 2019. After signed several extension agreements with the recreant parties on 31 May 2018 and 30 November 2018, the expiry date of the placing was further extended to 30 May 2019. The bonds will mature in 3 years from the date of issuance. The interest rate is 6% per annum, and payable semi-annually in arrears.

The placing of Bonds II has been completed on 30 May 2019 in an aggregate principal amount of HK$208,100,000.

At 31 December 2022, Bond II was fully settled.

(c) Bond III

On 11 January 2018, the Company entered into the placing agreement with placing agent, for the purpose of arranging independent placees to subscribe for the bonds in aggregate principal amount up to HK$100,000,000 within the placing period. Subsequent to the year ended 31 December 2018, the Company entered into the supplemental agreement with the placing agent to extend the placing period from 365 days to 730 days. Bond III with the aggregate principal amount of HK$6,000,000 were issued during the year ended 31 December 2019. The bonds will mature in 3 years from the date of issuance. The interest rate is 6% per annum, and payable annually in arrears.

The placing of Bond III has been completed on 17 January 2021 in an aggregate principal amount of HK$20,000,000.

At 31 December 2022, Bond III was fully settled.

## 31. OTHER LOANS *(Continued)*

Notes: (Continued)

(iii) (Continued)

(d) Bond IV

On 18 January 2018, the Company entered into the placing agreement with placing agent, for the purpose of arranging independent placees to subscribe for the bonds up to aggregate principal amount of HK$100,000,000 within the placing period. Subsequent to the year ended 31 December 2018, the Company entered into the supplemental agreement with the placing agent to extend the placing period from 365 days to 730 days. Bond IV with the aggregate principal amount of HK$20,000,000 were issued during the year ended 31 December 2018. The bonds will mature in 7.5 years from the date of issuance. The interest rate is 6% per annum, and payable annually in arrears.

The placing of Bond IV has been completed on 17 January 2021 in an aggregate principal amount of HK$20,000,000.

At 31 December 2022, the outstanding Bond IV amounted to approximately HK$16,500,000.

(e) Bond V

On 15 January 2019, the Company entered into the placing agreement with the placing agent, for the purpose of arranging independent placees. to subscribe for 5% per annum for Bonds (A) and 5.5% per annum for Bonds (B) with a term of one year and two years respectively, up to an aggregate principal amount of HK$200,000,000. The placing of Bond V has been completed on 14 January 2021.

At 31 December 2021, the Bond V was fully settled.

(f) Other bonds

Except for the issuance of bonds through the placing agents as above, the Company has also issued other bonds to subscribers in an aggregate principal amount of HK$Nil (2021: HK$43,000,000) at a fixed coupon rate in range of 5% to 6% with a term ranging from 1 to 3 years. At 31 December 2022, the outstanding other bonds amounted to HK$Nil and was classified as an other loan (2021: HK$37,900,000).

## 32. LEASE LIABILITIES

At 31 December 2022, the lease liabilities were repayable as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Within 1 year | **123,380** | 117,501 |
| After 1 year but within 2 years | **78,929** | 140,007 |
| After 2 years but within 5 years | **77,134** | 30,740 |
| After 5 years | **5,072** | 313 |
| | **161,135** | 171,060 |
| | **284,515** | 288,561 |

At 31 December 2022 and 2021, the Group entered into financing arrangements for purchase machineries with independent third party leasing companies, in the form of sale and leaseback transactions which result in finance leases and the Group bears repurchase options. As the repurchase prices are set at RMB100 which is minimal compared to the expected fair values of the underlying assets at the end of the lease periods and the Group is certain that it will exercise the repurchase options, and considering the amounts of the lease payments to be paid on the selling prices, the above financing arrangements are accounted for as collateralised borrowings at amortised cost using effective interest method.

The finance lease of approximately HK$258,040,000 (equivalent to approximately RMB230,496,000) (2021: HK$259,141,000 (equivalent to approximately RMB211,872,000)) is secured by contractual rights to receive the revenue generated by certain subsidiaries of the Company.

## 33. AMOUNTS DUE (FROM)/TO ASSOCIATES, JOINT VENTURES AND NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts were unsecured, interest-free and repayable on demand.

## 34. CAPITAL AND RESERVES

**(a)** The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

| | Share Capital HK$'000 | Share premium HK$'000 | Fair value reserve (non–recycling) HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **At 1 January 2021** | 798,270 | 954,318 | (3,891) | (1,074,463) | 674,234 |
| **Changes in equity for 2021:** | | | | | |
| Loss for the year | – | – | – | (61,748) | (61,748) |
| Fair value gain on financial asset through other comprehensive income | – | – | 702 | – | 702 |
| **Total comprehensive income for the year** | – | – | 702 | (61,748) | (61,046) |
| **At 31 December 2021** | 798,270 | 954,318 | (3,189) | (1,136,211) | 613,188 |
| **At 1 January 2022** | **798,270** | **954,318** | **(3,189)** | **(1,136,211)** | **613,188** |
| **Changes in equity for 2022:** | | | | | |
| Loss for the year | **–** | **–** | **–** | **(44,002)** | **(44,002)** |
| Fair value loss on financial asset through other comprehensive income | **–** | **–** | **(32)** | **–** | **(32)** |
| **Total comprehensive income for the year** | **–** | **–** | **(32)** | **(44,002)** | **(44,034)** |
| Transfer of fair value reserve upon the disposal of equity instruments at fair value through other comprehensive income | **–** | **–** | **110** | **(110)** | **–** |
| Capital reduction | **(782,305)** | **123,835** | **–** | **658,470** | **–** |
| Issue of new share under placing | **3,192** | **76,608** | **–** | **–** | **79,800** |
| Issue of shares upon right issue | **9,579** | **158,049** | **–** | **–** | **167,628** |
| **At 31 December 2022** | **28,736** | **1,312,810** | **(3,111)** | **(521,853)** | **816,582** |

## 34. CAPITAL AND RESERVES *(Continued)*

### (b) Share capital

| | 2022 No. of shares '000 | 2022 Amount HK$'000 | 2021 No. of shares '000 | 2021 Amount HK$'000 |
|---|---|---|---|---|
| **Authorised:** | | | | |
| Ordinary shares | | | | |
| At 1 January | **4,000,000** | **2,000,000** | 4,000,000 | 2,000,000 |
| Sub-division (note (iii)) | **196,000,000** | **–** | – | – |
| At 31 December (note (i)) | **200,000,000** | **2,000,000** | 4,000,000 | 2,000,000 |
| Convertible preference shares of HK$0.10 each | | | | |
| At 1 January and 31 December (note (i)) | **2,000,000** | **200,000** | 2,000,000 | 200,000 |
| **Issued and fully paid:** | | | | |
| Ordinary shares | | | | |
| At 1 January | **1,596,540** | **798,270** | 1,596,540 | 798,270 |
| Capital reduction (note (iii)) | **–** | **(782,305)** | – | – |
| Share capital issued under placing (note (iv)) | **319,200** | **3,192** | – | – |
| Right issue share (note (v)) | **957,870** | **9,579** | – | – |
| At 31 December | **2,873,610** | **28,736** | 1,596,540 | 798,270 |

Notes:

(i) The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Convertible preference shares do not carry the right to vote and not be entitled to any dividend payment or any distribution of the Company. No right for return of capital in liquidation is available for distribution among the holders of Convertible Preference Shares.

(iii) The Company completed the Capital Reduction and the Sub-division (the "Capital Reduction and the Sub-division") on 26 January 2022. The Capital Reduction and the Sub-division was approved by the shareholders at the extraordinary general meeting held on 25 October 2021 and its details are as follows:

(a) the reduction of the par value of each issued share from HK$0.50 to HK$0.01; and

(b) the sub-division of each authorised but unissued share into 50 new shares of HK$0.01 each (each a "New Share").

(iv) On 23 February 2022, the Company completed a share placing for 319,200,000 shares at a placing price of HK$0.25 per share to independent investors. Details of the placement are set out in the Company's announcements dated 27 January 2022 and 23 February 2022.

(v) On 20 July 2022, the Company completed a rights issue at a price of HK$0.175 per rights share on the basis of one (1) rights share for every two (2) existing shares held by the qualifying shareholders on the record date (i.e. 24 June 2022) (the "Rights Issue") by issuing up to 957,869,883 rights shares. The gross proceeds from the Rights Issue are approximately HK$167.6 million and the net proceeds from the Rights Issue, after deducting all relevant expenses for the Rights Issue, are estimated to be approximately HK$165.8 million of which (i) approximately 80% of the net proceeds is intended to be utilised for the partial repayment of the Group's loans and borrowings; and (ii) approximately 20% of the net proceeds is intended to be used for general working capital (including but not limited to staff cost, office rent and rates, professional fees and other general corporate expenses). For details, please refer to (i) announcements dated 13 June 2022 and 20 July 2022 and (ii) prospectus dated 29 June 2022.

## 34. CAPITAL AND RESERVES *(Continued)*

### (c) Nature and purpose of reserves

*(i) Share premium*

Under the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

*(ii) Translation reserve*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 3(ad).

*(iii) Reserve fund*

Reserve fund arises from (i) Pursuant to applicable PRC regulations, certain PRC subsidiaries in the Group are required to appropriate 10% of their profit after tax (after offsetting prior year losses) to the statutory reserve until such reserve reaches 50% of their registered capital. Transfers to this reserve must be made before distribution of dividends to shareholders. Upon approval by relevant authorities, the statutory reserve can be utilised to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital; and (ii) premium paid for capital injection in relation to the additional of equity interest of a subsidiary.

*(iv) Revaluation reserve*

The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in (note 3(i)).

*(v) Fair value reserve (non-recycling)*

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see note 3(n)).

## 35. GOVERNMENT GRANTS

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| At 1 January | **38,382** | 28,092 |
| Additions | **2,816** | 20,939 |
| Recognised as other income for the year | **(4,218)** | (11,616) |
| Exchange realignment | **(3,196)** | 967 |
| At 31 December, classified as non-current liabilities | **33,784** | 38,382 |

## 35. GOVERNMENT GRANTS *(Continued)*

Certain subsidiaries of the Group received government grants subsidising construction of water supply facilities. There are no unfulfilled conditions and other contingencies attaching to the government grants. The government grants were accounted for as non-current liabilities and amortised over the useful lives of the relevant water pipeline network and water plant assets. During the year, certain projects related to the construction of water pipeline network has been completed and being used in the year. Deferred government grants of approximately HK$4,218,000 (2021: HK$11,616,000) was amortised and recognised in the consolidated statement of profit or loss.

## 36. DEFERRED TAX (ASSETS)/LIABILITIES

The following are the major deferred tax (assets)/liabilities recognised and movements thereon during the current and prior years:

| | Withholding tax on undistributed profits | Service concession arrangements | Revaluation on investment property/ Exclusive rights | Property, plant and equipment transfer to resumption property | Investment properties | Government grants | Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2021 | 13,214 | 9,474 | 40,615 | 7,627 | 7,992 | (300) | 78,622 |
| Charged/(credited) to profit or loss for the year | – | (516) | (2,866) | 9 | – | – | (3,373) |
| Arising from acquisition of subsidiary | – | – | 571 | – | – | – | 571 |
| Arising from revaluation on investment properties | – | – | – | – | 575 | – | 575 |
| Disposal of subsidiaries | – | 530 | – | (7,377) | (8,060) | – | (14,907) |
| Exchange realignment | – | 62 | 296 | 71 | 76 | – | 505 |
| At 31 December 2021 and 1 January 2022 | **13,214** | **9,550** | **38,616** | **330** | **583** | **(300)** | **61,993** |
| Charged/(credited) to profit or loss for the year | **–** | **498** | **(8,781)** | **–** | **146** | **–** | **(8,137)** |
| Arising from acquisition of subsidiaries | **–** | **(1,126)** | **2,296** | **–** | **–** | **–** | **1,170** |
| Arising from revaluation on investment properties | **–** | **–** | **–** | **–** | **312** | **–** | **312** |
| Disposal of subsidiaries | **–** | **(342)** | **–** | **–** | **–** | **–** | **(342)** |
| Exchange realignment | **–** | **(661)** | **(191)** | **–** | **(77)** | **–** | **(929)** |
| At 31 December 2022 | **13,214** | **7,919** | **31,940** | **330** | **964** | **(300)** | **54,067** |

## 36. DEFERRED TAX (ASSETS)/LIABILITIES *(Continued)*

**Reconciliation to the consolidated statements of financial position**

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Deferred tax assets | **(2,513)** | (739) |
| Deferred tax liabilities | **56,580** | 62,732 |
| | **54,067** | 61,993 |

At 31 December 2022, the Group had unused tax losses of approximately HK$411,956,000 (2021: HK$356,841,000) available for offset against future taxable profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. At 31 December 2022, no tax losses can be carried forward indefinitely and tax losses of approximately HK$411,956,000 (2021: HK$356,841,000) will expire in five years' time.

At 31 December 2022, the Group also has other deductible temporary differences of approximately HK$216,320,000 (2021: HK$96,125,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be recognised.

Under the EIT law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5%-10% will be applied. Deferred tax has been provided for in respect of the temporary difference attributable to such profits amounting to approximately HK$392,932,000 (2021: HK$504,088,000).

## 37. ACQUISITION OF SUBSIDIARIES

### 2022

*(a) Fushun Shifang Bioenergy Limited*

On 2 December 2021, Shenzhen City New China Water Environmental Technology Limited entered into a sale and purchase agreement with Beikong Shifang(Shandong) Environmental Energy Group Limited* ("Beikong Shifang") (北控十方 (山東) 環保能源集團有限公司) to acquire 100% equity interests of the Fushun Shifang Bioenergy Limited* ("Fushun Shifang") (撫順十方生物能源有限公司) for a consideration of RMB3,110,000 (equivalent to approximately HK$3,641,000). The acquisition was completed on 29 May 2022, on the date the control in Fushun Shifang was passed to the Group, since then, the Group is interested in 100% equity interests of Fushun Shifang. Fushun Shifang is principally engaged in sales of compressed natural gas in Fushun City, Liaoning Province, the PRC. The acquisition has been accounted for as acquisition of business using the acquisition method.

## 37. ACQUISITION OF SUBSIDIARIES *(Continued)*

**2022** *(Continued)*

*(a) Fushun Shifang Bioenergy Limited (Continued)*

| | HK$'000 |
|---|---|
| Total consideration paid | **2,913** |
| Consideration payable | **728** |
| | **3,641** |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | **4,259** |
| Operating concessions | **1,095** |
| Deferred tax assets | **1,123** |
| Inventories | **154** |
| Trade and other receivables | **1,229** |
| Bank balances and cash acquired | **617** |
| Trade and other payables | **(4,853)** |
| Total identified net assets at fair value | **3,624** |
| Goodwill arising on acquisition of subsidiaries | **17** |
| Total consideration | **3,641** |

Acquisition-related costs (included in administrative expenses) amounted to approximately HK$332,000.

The goodwill is attributable to Fushun Shifang's strong position in sale of compressed natural gas business in Fushun City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. It will not be deductible for tax purposes.

Since the acquisition, Fushun Shifang contributed approximately HK$1,239,000 to the Group's revenue and approximately HK$1,518,000 to the consolidated loss for the year ended 31 December 2022.

Had the acquisition taken place at the beginning of the year, the revenue from continuing operations of the Group and the consolidated loss of the Group for the year would have been approximately HK$2,124,000 and HK$2,602,000, respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2022, nor is it intended to be a projection of future results.

## 37. ACQUISITION OF SUBSIDIARIES *(Continued)*

**2022** *(Continued)*

*(a) Fushun Shifang Bioenergy Limited (Continued)*

Net cash outflow arising on acquisition:

| | HK$'000 |
|---|---|
| Consideration paid | **2,913** |
| Deposit paid for acquisition of subsidiary | **(1,456)** |
| Less: bank balances and cash acquired | **(617)** |
| | **840** |

*(b) Zhengzhou Xinguan Energy Development Limited*

On 2 December 2021, Shenzhen City New China Water Environmental Technology Limited entered into a sale and purchase agreement with Beikong Shifang to acquire 100% equity interests of the Zhengzhou Xinguan Energy Development Limited* ("Zhengzhou Xinguan") (鄭州新冠能源開發有限公司) for a consideration of RMB22,340,000 (equivalent to approximately HK$25,575,000). The acquisition was completed on 25 August 2022, on the date the control in Zhengzhou Xinguan was passed to the Group, since then, the Group is interested in 100% equity interests of Zhengzhou Xinguan. Zhengzhou Xinguan is principally engaged in operation of landfill gas power generation in Zhengzhou City, Henan Province, the PRC. The acquisition has been accounted for as acquisition of business using the acquisition method.

| | HK$'000 |
|---|---|
| Total consideration paid | **15,345** |
| Consideration payable | **10,230** |
| | **25,575** |

## 37. ACQUISITION OF SUBSIDIARIES *(Continued)*

**2022** *(Continued)*

*(b) Zhengzhou Xinguan Energy Development Limited (Continued)*

The assets and liabilities recognised as a result of the acquisition are as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | **27,591** |
| Other intangible assets | **3,082** |
| Deferred tax assets | **127** |
| Inventories | **990** |
| Trade and other receivables | **44,485** |
| Bank balances and cash acquired | **2,952** |
| Trade and other payables | **(39,977)** |
| Lease liabilities | **(12,906)** |
| Deferred tax liabilities | **(770)** |
| Total identified net assets at fair value | **25,574** |
| Goodwill arising on acquisition of subsidiary (note 19) | **1** |
| Total consideration | **25,575** |

Acquisition-related costs (included in administrative expenses) amounted to approximately HK$58,000.

The goodwill is attributable to Zhengzhou Xinguan's strong position in landfill gas power generation business in Zhengzhou City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. It will not be deductible for tax purposes.

Since the acquisition, Zhengzhou Xinguan contributed approximately HK$8,369,000 to the Group's revenue and approximately HK$2,079,000 to the consolidated loss for the year ended 31 December 2022.

Had the acquisition taken place at the beginning of the year, the revenue from continuing operations of the Group and the consolidated loss of the Group for the year would have been approximately HK$25,107,000 and HK$6,237,000, respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2022, nor is it intended to be a projection of future results.

Net cash outflow arising on acquisition:

| | HK$'000 |
|---|---|
| Consideration paid | **15,345** |
| Deposit paid for acquisition of subsidiary | **(10,230)** |
| Less: bank balances and cash acquired | **(2,952)** |
| | **2,163** |

## 37. ACQUISITION OF SUBSIDIARIES *(Continued)*

**2022** *(Continued)*

*(c) Taiyuan Yuantong Bioenergy Limited*

On 23 May 2022, Shenzhen City New China Water Environmental Technology Limited entered into a sale and purchase agreement with Shandong Yuantong Bioenergy Limited* (山東圓通生物能源有限公司) to acquire 100% equity interests of the Taiyuan Yuantong Bioenergy Limited* ("Taiyuan Yuantong") (太原市圓通生物能源有限公司) for a consideration of RMB13,550,000 (equivalent to approximately HK$15,434,000). The acquisition was completed on 31 August 2022, on the date the control in Taiyuan Yuantong was passed to the Group, since then, the Group is interested in 100% equity interests of Taiyuan Yuantong. Taiyuan Yuantong is principally engaged in sales of compressed natural gas in Taiyuan City, Shanxi Province, the PRC. The acquisition has been accounted for as acquisition of business using the acquisition method.

| | HK$'000 |
|---|---|
| Total consideration paid | **12,348** |
| Consideration payable | **3,086** |
| | **15,434** |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | **1,664** |
| Deferred tax assets | **3** |
| Inventories | **344** |
| Trade and other receivables | **11,307** |
| Bank balances and cash acquired | **3,070** |
| Trade and other payables | **(1,072)** |
| Deferred tax liabilities | **(336)** |
| Total identified net assets at fair value | **14,980** |
| Goodwill arising on acquisition of subsidiary (note 19) | **454** |
| Total consideration | **15,434** |

Acquisition-related costs (included in administrative expenses) amounted to approximately HK$156,000.

The goodwill is attributable to Taiyuan Yuantong's strong position in sale of compressed natural gas business in Taiyuan City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. It will not be deductible for tax purposes.

## 37. ACQUISITION OF SUBSIDIARIES *(Continued)*

**2022** *(Continued)*

*(c) Taiyuan Yuantong Bioenergy Limited (Continued)*

Since the acquisition, Taiyuan Yuantong contributed approximately HK$3,007,000 to the Group's revenue and approximately HK$672,000 to the consolidated loss for the year ended 31 December 2022.

Had the acquisition taken place at the beginning of the year, the revenue from continuing operations of the Group and the consolidated loss of the Group for the year would have been approximately HK$9,021,000 and HK$2,016,000, respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2022, nor is it intended to be a projection of future results.

Net cash outflow arising on acquisition:

| | HK$'000 |
|---|---|
| Consideration paid | **12,348** |
| Less: bank balances and cash acquired | **(3,070)** |
| | **9,278** |

*(d) Anchor Environmental & Energy Technology (Shanghai) Co., Ltd.*

On 15 March 2022, New China Water (Nanjing) Renewable Resources Investment Company Limited entered into a sale and purchase agreement with Zhang Jin* (張進) to acquire 51% equity interests of the Anchor Environmental & Energy Technology (Shanghai) Co., Ltd.* ("Anchor") (安和睿環保能源科技 (上海) 有限公司) for a consideration of RMB10,348,000 (equivalent to approximately HK$11,752,000). The acquisition was completed on 15 September 2022, on the date the control in Anchor was passed to the Group, since then, the Group is interested in 51% equity interests of Anchor. Anchor is principally engaged in sales of customized equipment in Shanghai City, the PRC. The acquisition has been accounted for as acquisition of business using the acquisition method.

| | HK$'000 |
|---|---|
| Total consideration paid | **7,950** |
| Consideration payable | **3,802** |
| | **11,752** |

## 37. ACQUISITION OF SUBSIDIARIES *(Continued)*

**2022** *(Continued)*

*(d) Anchor Environmental & Energy Technology (Shanghai) Co., Ltd. (Continued)*

The assets and liabilities recognised as a result of the acquisition are as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | **92** |
| Other intangible assets | **2,659** |
| Inventories | **161** |
| Trade and other receivables | **5,399** |
| Bank balances and cash acquired | **397** |
| Trade and other payables | **(1,898)** |
| Amounts due to non-controlling shareholders of subsidiary | **(454)** |
| Deferred tax liabilities | **(665)** |
| Total identified net assets at fair value | **5,691** |
| Non-controlling interests, based on their proportionate interest in the recognised amounts of the assets and liabilities of Anchor | **(2,789)** |
| | **2,902** |
| Goodwill arising on acquisition of subsidiary (note 19) | **8,850** |
| Total consideration | **11,752** |

Acquisition-related costs (included in administrative expenses) amounted to approximately HK$29,000.

The goodwill is attributable to Anchor's relevant technology of water supply and sewage treatment in Shanghai City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. It will not be deductible for tax purposes.

Since the acquisition, Anchor contributed approximately HK$2,656,000 to the Group's other operating income and approximately HK$1,019,000 to the consolidated loss for the year ended 31 December 2022.

Had the acquisition taken place at the beginning of the year, the other operating income from continuing operations of the Group and the consolidated loss of the Group for the year would have been approximately HK$10,624,000 and HK$4,076,000, respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2022, nor is it intended to be a projection of future results.

## 37. ACQUISITION OF SUBSIDIARIES *(Continued)*

**2022** *(Continued)*

*(d) Anchor Environmental & Energy Technology (Shanghai) Co., Ltd. (Continued)*

Net cash outflow arising on acquisition:

| | HK$'000 |
|---|---|
| Consideration paid | 7,950 |
| Less: bank balances and cash acquired | (397) |
| | 7,553 |

*(e) Shandong Yixin Water Clean Energy Limited*

On 28 September 2022, Shenzhen City New China Water Environmental Technology Limited entered into a sale and purchase agreement with Beijing Kechuang Environmental Energy Equipment Technology Co., Ltd.* (北京科創環能裝備技術有限公司) to acquire 100% equity interests of the Shandong Yixin Water Clean Energy Limited* ("Shandong Yixin") (山東省益新水清潔能源有限公司) for a consideration of RMB2,770,000 (equivalent to approximately HK$3,058,000). The acquisition was completed on 12 October 2022, on the date the control in Shandong Yixin was passed to the Group, since then, the Group is interested in 100% equity interests of Shandong Yixin. Shandong Yixin is principally engaged in sales of compressed natural gas in Dezhou City, Shandong Province, the PRC. The acquisition has been accounted for as acquisition of business using the acquisition method.

| | HK$'000 |
|---|---|
| Total consideration paid | 3,058 |
| Consideration payable | – |
| | 3,058 |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | HK$'000 |
|---|---|
| Other intangible assets | 3,952 |
| Deferred tax liabilities | (988) |
| Total identified net assets at fair value | 2,964 |
| Goodwill arising on acquisition of subsidiary (note 19) | 94 |
| Total consideration | 3,058 |

## 37. ACQUISITION OF SUBSIDIARIES *(Continued)*

**2022** *(Continued)*

*(e) Shandong Yixin Water Clean Energy Limited (Continued)*

No significant acquisition-related costs were incurred.

The goodwill is attributable to Shandong Yixin's strong position in landfill gas power generation business in Dezhou City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. It will not be deductible for tax purposes.

From the date of acquisition to 31 December 2022, Shandong Yixin contributed loss of approximately HK$58,000 to the loss of the Group for the year ended 31 December 2022. No revenue was generated by Shandong Yixin.

Had the acquisition taken place at the beginning of the year, the consolidated loss of the Group for the year would have been approximately HK$232,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2022, nor is it intended to be a projection of future results.

Net cash outflow arising on acquisition:

| | HK$'000 |
|---|---|
| Consideration paid | **3,058** |
| Less: bank balances and cash acquired | – |
| | **3,058** |

*(f)* On 10 October 2022, New China Water (Nanjing) Renewable Resources Investment Company Limited entered into a capital injection agreement with Zhou Jun* (周俊) and Beijing Zhenhui Energy Saving and Environmental Protection Technology Co., Ltd.* (北京振徽節能環保科技有限公司) to contribute RMB15,000,000 (equivalent to approximately HK$16,436,000) to the registered capital of Huoqiu Huizhao Renewable Energy Technology Co., Ltd* ("Huoqiu Huizhao") (霍邱徽沼可再生能源科技有限公司). The registration of modifications was completed on 26 October 2022, since then, the Group is interested in 60% equity interests of Huoqiu Huizhao. Huoqiu Huizhao is principally engaged in operation of bioenergy power generation plant in Lu An City, Anhui Province, the PRC.

## 37. ACQUISITION OF SUBSIDIARIES *(Continued)*

**2021**

On 1 December 2020, Shenzhen City New China Water Environmental Technology Limited entered into a sale and purchase agreement with Qian Jiang* （錢江） to acquire 100% equity interests of the Huangshi City Hangwei Intelligence Energy Co., Ltd.* (“Huangshi City Hangwei”)（黃石市航為智慧能源有限公司） for a consideration of RMB1,450,000 (equivalent to approximately HK$1,737,000) which contributed by cash consideration amounted RMB350,000 (equivalent to approximately HK$394,000) and contingent consideration payable amounted RMB1,098,000 (equivalent to approximately HK$1,343,000). The acquisition was completed on 13 January 2021, on the date the control in Huangshi City Hangwei Intelligence was passed to the Group, since then, the Group is interested in 100% equity interests of Huangshi City Project. Huangshi City Project is principally engages in operation of landfill gas power generation plant in Huangshi City, Huhei Province, the PRC, for an operation period of 6 years until September 2026.

| | HK$'000 |
|---|---|
| Total consideration paid | 394 |
| Contingent consideration payable | 1,343 |
| | 1,737 |

The goodwill is attributable to Huangshi City Huangwei’s strong position in biogas power generation business in Huangshi City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

From the date of acquisition to 31 December 2021, Huangshi City Huangwei contributed loss of approximately HK$615,000 to the loss of the Group for the year ended 31 December 2021. No revenue was generated by Huangshi City Huangwei.

* The English name is for identification purpose only.

## 37. ACQUISITION OF SUBSIDIARIES *(Continued)*

**2021** *(Continued)*

The net assets acquired in the transaction and the goodwill arising are as follows:

| | HK$'000 |
|---|---|
| Intangible assets | 2,286 |
| Deferred tax liabilities | (571) |
| Total identified net assets at fair value | 1,715 |
| Goodwill arising on acquisition of subsidiaries (note 19) | 22 |
| Total consideration | 1,737 |
| Consideration paid in cash for the year ended 31 December 2021 | – |
| Cash and cash equivalent balances acquired | – |
| Net cash outflow in the year ended 31 December 2021 | – |

*Net cash outflow arising on acquisition*

| | HK$'000 |
|---|---|
| Consideration paid | 1,737 |
| Deposit paid for acquisition of subsidiary | (394) |
| Contingent consideration payable | (1,343) |
| Less: bank balances and cash acquired | – |
| | – |

## 38. DISPOSAL OF A SUBSIDIARY

### 2022

On 11 October 2022, an indirect wholly-owned subsidiary of the Group, China Water Industry (HK) Limited and Aode Group Company Limited* ("Aode Group") (奧德集團有限公司) entered into Equity Transfer Agreement, pursuant to which the China Water Industry (HK) Limited has conditionally agreed to sell, and the Aode Group has conditionally agreed to purchase, the 60% equity interests in Linyi Fenghuang Water Industry Co., Ltd* ("Linyi Fenghuang") (臨沂鳳凰水業有限公司) for a total consideration of RMB53,000,000 (equivalent to approximately HK$58,024,000). Completion of the disposal of Linyi Fenghuang took place on 28 October 2022. Accordingly, the Linyi Fenghuang ceased to be a subsidiary of the Company, and the financial information of Linyi Fenghuang ceased to be consolidated into the consolidated financial statements of the Group.

The net assets of Linyi Fenghuang at the date of disposal were as follows:

*Consideration received:*

| | HK$'000 |
|---|---|
| Deposit received for disposal of subsidiary | 10,948 |
| Set off of amounts due to subsidiaries | 47,076 |
| Total consideration received | 58,024 |

**Analysis of assets and liabilities over which control was lost:**

| | 31/10/2022 |
|---|---|
| Current assets | 122,955 |
| Non-current assets | 21,849 |
| Current liabilities | (51,742) |
| Non-Current liabilities | (342) |
| Net assets disposed of | 92,720 |

**Gain on disposal of a subsidiary:**

| | |
|---|---|
| Consideration received and receivable | 58,024 |
| Net assets disposed of | (92,720) |
| Non-controlling interests | 37,088 |
| Release of reserve upon disposal | (1,861) |
| Gain on disposal | 531 |

## 38. DISPOSAL OF A SUBSIDIARY *(Continued)*

### 2022 *(Continued)*

The gain on disposal is included in the loss for the year.

| | HK$'000 |
|---|---|
| **Net cash outflow arising on disposal:** | |
| Cash and cash equivalents disposed of | **(103,099)** |
| | **(103,099)** |

* The English name is for identification purpose only.

### 2021

On 15 December 2020, China Water Industry (HK) Limited, Jiangxi Sanchuan Group Company Limited* ("Jiangxi Sanchuan")（江西三川集團有限公司） and Yingtan Water Supply Group Co. Ltd.* ("Yingtan Water")（鷹潭市供水集團有限公司） entered into the First Equity Transfer Agreement, pursuant to which the China Water Industry (HK) has conditionally agreed to sell, and the Jiangxi Sanchuan has conditionally agreed to purchase 20% equity interests in the Yingtan Water for a total consideration of RMB120,000,000 (equivalent to approximately HK$142,416,000). Completion of the First Disposal of Yingtan Water took place on 23 February 2021. Accordingly, the Yingtan Water ceased to be a subsidiary of the Company, and the financial information of the Yingtan Water Group ceased to be consolidated into the consolidated financial statements of the Group.

On 28 June 2021, China Water Industry (HK) Limited, Yingtan Water and the Jiangxi Sanchuan entered into the Second Equity. Transfer Agreement, pursuant to which China Water Industry (HK) Limited has conditionally agreed to sell, and the Jiangxi Sanchuan has conditionally agreed to purchase 31% registered capital of the Yingtan Water, for a total consideration of RMB186,000,000 (equivalent to approximately HK$226,734,000). The Second Disposal of Yingtan Water was approved by the shareholders by way of poll at the EGM on 14 September 2021. The Second Disposal of Yingtan Water was completed on 24 September 2021 upon the completion of the registration of equity transfer.

The net assets of Yingtan Water Group at the date of disposal were as follows:

*Consideration received:*

| | HK$'000 |
|---|---|
| Cash received | 117,302 |
| Deposit received for disposal of subsidiary | 26,710 |
| Total consideration received | 144,012 |

## 38. DISPOSAL OF A SUBSIDIARY *(Continued)*

**2021** *(Continued)*

**Analysis of assets and liabilities over which control was lost:**

| | 28/2/2021 |
|---|---|
| Current assets | 1,519,829 |
| Non-current assets | 578,513 |
| Current liabilities | (1,297,230) |
| Non-current liabilities | (110,357) |
| Net assets disposed of | 690,755 |

| | HK$'000 |
|---|---|
| **Gain on disposal of a subsidiary:** | |
| Consideration received and receivable | 144,012 |
| Net assets disposed of | (690,755) |
| Non-controlling interests | 338,470 |
| Fair value of interests retained | 229,380 |
| Release of reverse upon disposal | 23,933 |
| Gain on disposal | 45,040 |

The gain on disposal is included in the loss for the year.

| | |
|---|---|
| **Net cash inflow arising on disposal:** | |
| Consideration received in cash and cash equivalents | 117,302 |
| Less: Cash and cash equivalents disposed of | (117,302) |
| | – |

* The English name is for identification purpose only.

## 39. CAPITAL COMMITMENTS

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Contracted but not provided for: | | |
| — Acquisition of concession intangible assets and property, plant and equipment | **5,264** | 8,393 |

## 40. OPERATING LEASING ARRANGEMENTS

### The Group as lessor

Property rental income earned during the year was approximately HK$780,000 (2021: HK$907,000) (note 9).

Undiscounted lease payments receivable on leases of investment properties (note 18) are as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Within one year | **3,972** | 334 |
| After one year but within five years | **10,621** | 190 |
| After five years | **14,118** | – |
| | **28,711** | 524 |

## 41. SHARE-BASED PAYMENT TRANSACTIONS

### Equity-settled share option scheme

*The 2011 Scheme*

On 3 June 2011, the Company has adopted new share option scheme (the "2011 Scheme") to replace the 2002 Scheme.

Further details are set out in the announcement of the Company dated 29 April 2011. The 2011 Scheme is valid and effective for a period of 10 years after the date of adoption.

Under the terms of the 2011 Scheme, the Directors of the Company may, at their discretion, grant options to the employees, executive or non-executive Directors, business associate, person or entity that provides research, development or other technological support to any shareholder of any member of the Group or any invested entity, any adviser or consultant to any owner of business or business development of any member of the Group or any invested entity (the "Eligible Participants").

## 41. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

**Equity-settled share option scheme** *(Continued)*

*The 2011 Scheme (Continued)*

A nominal consideration of HK$1 is payable on acceptance of the grant of an option which will entitle the holders to subscribe for shares of the Company during a period of 10 years commencing on the date of acceptance of the option at a price at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares of the Company on the Stock Exchange on the date of grant; and (iii) the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option.

Share options granted to connected person and its associates is subject to the approval of the Independent Non-Executive Directors ("INEDs"). In addition, any grant of share options to a substantial shareholder or an INED or any of their respective associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to the approval of the shareholders of the Company in a general meeting.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2011 Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the 2011 Scheme shall not exceed 10% of the shares in issue as at the date of the approval, or the maximum number of shares in respect of which options may be granted to any Eligible Participants may not exceed 1% of the shares in issue from time to time in a 12-month period. Except for the entitlements of dividends, bonus, rights declared before the exercise of options, any shares allotted and issued on the exercise of an option will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

The 2011 Scheme was terminated by the shareholders by way of poll at the AGM on 2 June 2021.

*The 2021 Scheme*

On 2 June 2021, the Company has adopted new share option scheme (the "2021 Scheme") to replace the 2011 Scheme.

Further details are set out in the announcement of the Company dated 29 April 2021. The 2021 Scheme is valid and effective for a period of 10 years after the date of adoption. In respect of any particular option, such period commencing on the date of grant or such later date as the Directors may decide and expiring on such date as the Directors may determine, such period not to exceed 10 years from the date of grant.

Under the terms of the 2021 Scheme, the Directors of the Company may, at their discretion, grant options to the any directors, whether executive or non-executive and whether independent or not, of the Group, full time or part time employees of the Group; and any business or joint venture partners, contractors, agents or representatives, consultants, advisers, suppliers, producers or licensors, customers, licensees (including any sub-licensees) or distributors, landlords or tenants (including any sub-tenants) of the Group (the "Eligible Participants").

An offer of the grant of an option shall remain open for acceptance for a period of 21 days from the date of the letter containing the grant. An offer of the grant of the option shall be regarded as having been accepted when the duplicate of the grant letter duly signed by the grantee together with a remittance in favour of the company of HK$1.00 by way of consideration for the grant thereof is received by the Company.

## 41. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

### Equity-settled share option scheme *(Continued)*

*The 2021 Scheme (Continued)*

Share options granted to connected person and its associates is subject to the approval of the independent non-executive directors ("INEDs"). In addition, any grant of share options to a substantial shareholder or an INED or any of their respective associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to the approval of the shareholders of the Company in a general meeting.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the scheme shall not exceed 10% of the shares in issue as at the date of the approval, or the maximum number of shares in respect of which options may be granted to any eligible participants may not exceed 1% of the shares in issue from time to time in a 12-month period. Except for the entitlements of dividends, bonus, rights declared before the exercise of options, any shares allotted and issued on the exercise of an option will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

At 31 December 2022 and 2021, no options had been granted and remained outstanding under the share option scheme of the Company.

## 42. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group and its employees each contribute 5% of relevant payroll costs to the scheme. Effective from 1 June 2014, the cap of monthly relevant income was HK$30,000.

The employees of the Group's subsidiaries in the PRC are required to participate in the Central Pension Scheme ("CPS") CPS operated by the local municipal governments. These PRC subsidiaries are required to contribute a certain percentage of their payroll costs to the CPS. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the CPS.

The total cost charged to the consolidated statement of profit or loss of approximately HK$24,898,000 (2021: HK$24,476,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Note | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Financial assets at fair value through other comprehensive income | | **3,843** | 4,071 |
| Investment in subsidiaries | | **2** | 2 |
| Deposits and prepayments | | **18,960** | 18,960 |
| | | **22,805** | 23,033 |
| **Current assets** | | | |
| Financial assets at fair value through profit or loss | | **–** | 359 |
| Other receivables | | **2,783** | 23,698 |
| Deposits and prepayments | | **15,948** | 18,028 |
| Amounts due from subsidiaries | | **815,271** | 660,673 |
| Cash held by financial institutions | | **566** | 116 |
| Bank balances and cash | | **6,131** | 730 |
| | | **840,699** | 703,604 |
| **Current liabilities** | | | |
| Other payables | | **6,755** | 11,047 |
| Other loans | | **23,717** | 86,558 |
| | | **30,472** | 97,605 |
| **Net current assets** | | **810,227** | 605,999 |
| **Total assets less current liabilities** | | **833,032** | 629,032 |
| **Capital and reserves** | 34 | | |
| Share capital | | **28,736** | 798,270 |
| Reserves | | **787,846** | (185,082) |
| **Total equity** | | **816,582** | 613,188 |
| **Non-current liabilities** | | | |
| Other loans | | **16,450** | 15,844 |
| | | **833,032** | 629,032 |

Approved and authorised for issue by the board of directors on 30 March 2023:

**Mr. Zhu Yongjun**
*Director*

**Ms. Chu Yin Yin Georgiana**
*Director*

## 44. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE

The emoluments paid or payable to each of the 7 (2021: 12) directors and chief executive were as follows:

| | | | 2022 | | |
|---|---|---|---|---|---|
| Name | Fees<br>HK$'000 | Salaries, allowance and benefits in kind<br>HK$'000 | Discretionary bonuses<br>HK$'000 | Employer's contribution to a retirement benefit scheme<br>HK$'000 | 2022 Total<br>HK$'000 |
| **Executive Directors** | | | | | |
| Zhu YongJun (note (i)) | – | 960 | – | 18 | 978 |
| Chu Yin Yin, Georgiana | – | 960 | – | 18 | 978 |
| Deng Xiao Ting | – | 600 | – | 18 | 618 |
| Hu Siyun (note (ii)) | – | 363 | – | 8 | 371 |
| | – | 2,883 | – | 62 | 2,945 |
| **Independent Non-Executive Directors** | | | | | |
| Wong Siu Keung, Joe | 180 | – | – | – | 180 |
| Qiu Na | 180 | – | – | – | 180 |
| Lam Cheung Shing Richard | 180 | – | – | – | 180 |
| | 540 | – | – | – | 540 |
| | 540 | 2,883 | – | 62 | 3,485 |

## 44. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE *(Continued)*

| | 2021 | | | | |
|---|---|---|---|---|---|
| Name | Fees HK$'000 | Salaries, allowance and benefits in kind HK$'000 | Discretionary bonuses HK$'000 | Employer's contribution to a retirement benefit scheme HK$'000 | 2021 Total HK$'000 |
| **Executive Directors** | | | | | |
| Liu Feng (note (iii)) | – | 112 | – | 2 | 114 |
| Lin Yue Hui (note (iv)) | – | 342 | – | 9 | 351 |
| Chu Yin Yin, Georgiana | – | 972 | – | 18 | 990 |
| Deng Xiao Ting | – | 921 | – | 18 | 939 |
| Zhong Wei Guang (note (vii)) | – | 581 | – | 10 | 591 |
| Ho Chi Ho (note (vi)) | – | 180 | – | – | 180 |
| Zhu YongJun (note (i)) | – | 830 | – | 16 | 846 |
| Hu Siyun (note (ii)) | – | 167 | – | – | 167 |
| | – | 4,105 | – | 73 | 4,178 |
| **Independent Non-Executive Directors** | | | | | |
| Guo Chao Tian (note (v)) | 19 | – | – | – | 19 |
| Wong Siu Keung, Joe | 180 | – | – | – | 180 |
| Qiu Na | 180 | – | – | – | 180 |
| Lam Cheung Shing Richard | 180 | – | – | – | 180 |
| | 559 | – | – | – | 559 |
| | 559 | 4,105 | – | 73 | 4,737 |

Notes:

(i) Mr. Zhu Yongjun was appointed as the Chairman on 8 February 2021.

(ii) Mr. Hu Siyun was appointed as the Executive Director on 14 July 2021.

(iii) Mr. Liu Feng resigned as the Executive Director of the Company on 8 February 2021.

(iv) Mr. Lin Yue Hui resigned as the Chairman and Chief Executive Officer of the Company on 8 February 2021 and the Executive Director on 18 June 2021.

(v) Mr. Guo Chao Tian resigned as the Independent Non-Executive Director on 8 February 2021.

(vi) Mr. Ho Chi Ho resigned as the Non-Executive Director on 29 June 2021.

(vii) Mr. Zhong Wei Guang resigned as the Executive Director on 14 July 2021.

## 44. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE *(Continued)*

There was no arrangement under which directors and chief executive have waived or agreed to waive any emoluments during the two years ended 31 December 2022 and 2021.

There was no amount paid to the Directors and chief executive as an inducement to join or upon joining the Group, or as compensation for the loss of office.

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 45. LITIGATIONS AND ARBITRATION

### (a) Swift Surplus Holdings Limited, an indirect wholly-owned subsidiary of the Company

On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited ("Swift Surplus") (collectively as the "Lenders") entered into repayment agreements (the "Repayment Agreements") with the Sihui Sewage Treatment Co. Ltd.* (四會市城市污水處理有限公司) and Top Vision Management Limited ("Top Vision") (collectively as the "Borrowers") together with their respective guarantors, pursuant to which, the Borrowers shall repay to the Lenders the loan receivables of approximately HK$58,430,000 together with interest accrued thereon (the "Loan Receivables"). HK$5,000,000 of the Loan Receivables will be repaid on or before 30 September 2012 and the remaining Loan Receivables shall be repaid on or before 31 December 2012. On 29 August 2012, the Company only received HK$5,000,000 of the Loan Receivables. However, the remaining Loan Receivables of HK$53,430,000 (the "Remaining Loan Receivables") plus underlying interests were not yet received on 31 December 2012. On 22 March 2013, the Lenders have entered into supplemental deeds with the Borrowers together with their respective guarantors, pursuant to which, approximately HK$18,030,000 of the Remaining Loan Receivables and underlying interests shall be repaid to the Lenders on or before 21 March 2014 (the "Partial Payment of the Remaining Loan Receivables"). Nevertheless, Swift Surplus and Top Vision and its guarantors could not reach an agreement in respect of the terms and date of the repayment of the outstanding balance of HK$35,400,000 of the Remaining Loan Receivables and underlying interests (the "Outstanding Balance"). Despite the Company several requests and demands, Top Vision failed to effect payment of the Outstanding Balance. On 14 May 2013, the Company instructed its legal counsel to file the writ of summons (the "Writ") to the High Court of Hong Kong Special Administrative Region (the "High Court") to recover the Outstanding Balance from Top Vision. On 25 June 2013, the High Court adjudged a final judgment that Top Vision shall pay the Outstanding Balance to Swift Surplus (the "Final Judgment"). Top Vision has not performed the repayment obligation under the judgment issued by the High Court. The Company cannot locate any asset of Top Vision in Hong Kong. As advised by the legal counsel, without information on the assets of Top Vision in Hong Kong, the Company cannot enforce the Final Judgment against Top Vision. As the major assets owned by the subsidiaries of Top Vision are located in Guangdong Province, the PRC, the Company had undertaken recovery actions including but not limited to legal actions taken in PRC to collect the Remaining Loan Receivables.

On 20 August 2014, a petition was filed by Galaxaco Reservoir Holdings Limited ("Galaxaco") to wind up Top Vision, one of the creditors of Top Vision. Top Vision has now been wound up by the High Court by a Winding up Order under Companies Winding-up Proceedings No.157/2014 and the first meeting of creditors of Top Vision was held on 30 October 2014 for the appointment of provisional of liquidator. On 14 January 2015, the solicitors act for Galaxaco requested the High Court to have the hearing adjourned for the appointment of liquidators (the "Appointment") pending the alleged negotiation settlement between Top Vision and all creditors including the Company and its subsidiary of Swift Surplus and Galaxaco ("Creditors"). On 4 May 2015, The High Court appointed SHINEWING Specialist Advisory Services Limited as liquidators ("Liquidators"). The Liquidators have carried out the site visits and performed the investigation on PRC subsidiary of Top Vision.

## 45. LITIGATIONS AND ARBITRATION *(Continued)*

### (a) Swift Surplus Holdings Limited, an indirect wholly-owned subsidiary of the Company *(Continued)*

On 16 July 2015, the Zhaoqing Intermediate People's Court adjudged that the Final Judgment recognised and accepted to execute in Mainland China for the recovering the Outstanding Balance and the underlying interest from Top Vision ("PRC Judgment"). On 27 January 2016, the PRC Judgment was announced on the website of The People's Court Announcement for 60 days ("Announcement Period"). If Top Vision has not appealed for the PRC Judgment within 30 days after the Announcement Period, the PRC Judgment will be automatically effective thereafter, the Company can enforce the PRC Judgment. On 10 August 2016, Sihui City People's Court* (四會市人民法院) accepted to execute the PRC Judgment in Mainland China and requested Swift Surplus to provide the financial position statement relating to Top Vision. On 30 August 2016, Sihui City People's Court adjudged to freeze the entire equity interest held by Top Vision on Sihui Sewage for 3 years from 30 August 2016 to 29 August 2019. On 28 June 2020, Sihui City People's Court accepted the "resumption implementation application" which was submitted by Swift Surplus to resume the execution of the final judgement and continued to freeze the entire equity interest on Sihui Sewage for another 3 years till July 2022.

In 2016, the Company instructed the legal counsel to institute arbitral proceedings against the Borrowers and the guarantees under the supplemental loan agreements and their respective guarantees by filing the notices of Arbitration to HKIAC. HKIAC has confirmed the filing of such notices and the institution of respective arbitral proceedings. On 29 March 2020, HKIAC has appointed a sole arbitrator for this arbitration proceedings.

On 6 March 2018, Liquidators informed Creditors that Top Vision sold its entire shareholding in Top Vision Huizhou to Tai Heng Construction Holding Ltd. ("Tai Heng") without payment of purchase consideration of RMB1 million. The Liquidator obtained a judgement from the High Court under the action of HCA 2448/2017 on 7 January 2019 against Tai Heng in favour of Top Vision, under which Tai Heng should repay approximately HK$3,900,000 being principal and interest, and the Court further awarded judgement interest at a rate of 8% p.a. from 23 October 2017 to 31 December 2018 and 8.08% p.a. from 1 January 2019 to the date of payment (the "Judgement Debts"). The Liquidator proposed a demand letter of the Judgement Debt to Tai Heng on 29 January 2019 but failed to receive any reply from Tai Heng. Therefore, the Liquidators are prepared to issue statutory demand against Tai Heng. If Tai Heng fail to reply, the Liquidators may further pursue winding-up application against Tai Heng. On 16 April 2019, the Company filed the witness statements and documentary evidence (collectively known as "Evidence") to the High Court. But the Borrowers failed to file and serve their respective Defence & Counterclaim as well as their Evidence. The Company applied to the Tribunal to arrange the arbitral hearing. On 16 March 2020, the arbitrator of HKIAC made an arbitration award that each guarantor shall jointly and severally liable to repay the principals together with the interest accrued thereon to the Lenders. On 30 November 2021, the Swift Surplus had submitted the application to the Sihui City People's Court for the resumption of civil enforcement on Top Vision. In January 2022, Swift Surplus submitted the application to the Sihui City People's Court again for the resumption of execution of the final judgement granted in July 2015 to continue to freeze the entire equity interest on Sihui Sewage for another 3 years till July 2025. In January 2022, the Lender applied to Shenzhen Intermediate People's Court and Zhaoqing Intermediate People's Court for the recognition and enforcement of Hong Kong arbitrations and awards, so as to recover the debts from the guarantors. In June 2022, Sihui City People's Court accepted the application and adjudged to freeze the entire equity interest held by Top Vision on Sihui Sewage for addition 2 years from June 2022 to June 2024. Up to the date of this report, the legal proceeding in PRC is still in progress. The loan receivables from Top Vision of HK$43.60 million were fully impaired.

## 45. LITIGATIONS AND ARBITRATION *(Continued)*

### (b) Guangzhou Hyde Environmental Protection Technology Co., Ltd., an indirect wholly-owned subsidiary of the Company

Guangzhou Hyde Environmental Protection Technology Co. Ltd.* (廣州市海德環保科技有限公司) ("Guangzhou Hyde") (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited* (雲南超越燃氣有限公司) ("Yunnan Chaoyue Gas") entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK$10 million ("Deposit") to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project ("Project").

Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde's repeated requests and demands.

The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission ("Commission") for arbitration on 24 February 2012. The Commission accepted the case and started a trail on 5 June 2012. After the trail, arbitration tribunal ruled an award on 12 June 2012, adjudging that Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8,560,000 and overdue interests thereon; and the relevant arbitration fees.

The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award is served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the People's Republic of China. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People's Court (the "Kunming Court") for civil enforcement on 21 July 2012, and Kunming Court has accepted such application.

On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the "Repayment Plan") to Guangzhou Hyde. On 1 September 2014, Kunming Court has approved the civil enforcement against Yunnan Chaoyue Gas. Finally, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan.

On 21 August 2017, Guangzhou Hyde, Yunnan Chaoyue Gas, Yunnan Chaoyue Oil & Gas Technology Co., Ltd.* (雲南超越油氣科技有限公司), Yunnan Chaoyue Oil and Gas Exploration Co., Ltd.* (雲南超越油氣勘 探有限公司), Yunnan Transcend Pipeline Investment Co., Ltd.* (雲南超越管道投資有限公司) and Yunnan Transcend Energy Co., Ltd.* (雲南超越能源股份有限公司) and Mr. Liu Jinrong (collectively as the "Guarantors") entered into a settlement agreement which Yunnan Chaoyue Gas shall pay the Principal and overdue interests to Guangzhou Hyde on or before 31 December 2017 (the "Settlement Agreement"). On 14 September 2017, Guangzhou Hyde applied to Kunming Court for the resumption of civil enforcement which adjudged in 2014. On 13 August 2019, Yunnan Chaoyue Gas and Guarantors failed to fulfil the Settlement Agreement, Kunming Court accepted the application relating to the resumption of civil enforcement which submitted by Guangzhou Hyde. On 20 November 2019, the Kunming Court adjudged the Guarantors to repay the arbitration fee, the principal together with the underlying interest to Guangzhou Hyde within 10 days. On 8 January 2021, the Kunming Court failed to locate any assets from Yunnan Chaoyue Gas and Guarantors even taken exhaustive enforcement measures, and ruled to terminate this execution. The Kunming Court will resume the execution of this case in accordance with the law once any assets available for execution being found. Up to the date of this report, the Guarantors had not performed court judgement and no significant progress on this legal proceeding in the PRC. The Deposit was classified as loan receivable and fully impaired in 2011.

## 45. LITIGATIONS AND ARBITRATION *(Continued)*

### (c) New China Water (Nanjing) Energy Company Limited* (新中水(南京)能源有限公司) and New China Water (Nanjing) Carbon Company Limited* (新中水(南京)碳能有限公司), indirect non-wholly-owned subsidiaries of the Company

In October 2018, New China Water (Nanjing) Energy Company Limited ("New China Water Energy"), New China Water (Nanjing) Carbon Company Limited ("New China Water Carbon") and Jinling Construction Group of Jiangsu Province Co. Ltd.* (江蘇省金陵建工集團有限公司) ("Jinling Construction") entered into the construction contract for construction works, pursuant to which Jinling Construction became the construction contractor for Nanjing Space Big Data Industry Base which was developed by New China Water Energy and New China Water Carbon.

On 26 January 2022, Jinling Construction filed a lawsuit to Nanjing City Jiangning District People's Court* (南京市江寧區人民法院) (the "Jiangning Court") regarding the allegedly unsettled payment of construction fee by New China Water Energy and New China Water Carbon as co-defendants to Jinling Construction in the sum of approximately RMB151.59 million.

In February 2022, despite the parties were in negotiations to reach an agreement to settle the claims, the land use rights of the property were seized by Jiangning Court for the period from 18 February 2022 to 17 February 2025. On 21 March 2022, Jiangning Court decided to refer the case to the People's Court of Xuanwu District, Nanjing City, Jiangsu Province* (江蘇省南京市玄武區人民法院) ("Xuanwu People's Court") for trial. In May 2022, the parties have reached a preliminary settlement agreement. As both parties have the intention to resolve the contract dispute, Xuanwu People's Court decided to suspend the trial on 24 June 2022. Such construction debts amounted to RMB99.91 million have been recognised as other payable of the Group since the financial year ended 31 December 2021.

In August 2022, the involved parties signed the settlement agreement (the "Settlement Agreement") that affirmed the unpaid construction debts of RMB99.91 million and the repayment plan. The aforementioned Settlement Agreement was submitted to the Xuanwu People's Court for the withdrawal of the relevant land use rights seizure. New China Water Energy and New China Water Carbon had fulfilled a portion of their contractual responsibilities in accordance with the Settlement Agreement. According to the Settlement Agreement, Xuanwu People's Court issued a civil mediation letter (the "Civil Mediation Letter") confirming that New China Water Energy and New China Water Carbon should jointly and severally pay the outstanding construction debts in the amount of RMB89.91 million including a default claim of RMB8.00 million which was recognised as default claim payable. The Xuanwu People's Court subsequently removed the relevant seizure of the land use right. Up to the date of this report, despite New China Water Energy and New China Water Carbon have yet to execute the Civil Mediation Letter and fulfill their responsibilities in full, partial payment have been made and the parties are negotiating an updated settlement agreement and the relevant legal proceeding is still in process.

## 45. LITIGATIONS AND ARBITRATION *(Continued)*

### (d) Huizhou Swan Heng Chang Property Development Company Limited* (惠州鴻鵠恒昌置業有限公司) and Swan (Huizhou) Investment Company Limited* (鴻鵠(惠州)投資有限公司), indirect wholly-owned subsidiaries of the Company

In January 2018, Huizhou Swan Heng Chang Property Development Company Limited* (惠州鴻鵠恒昌置業有限公司) ("Swan Heng Chang") entered into the construction contract for construction works (the "Construction Contract") with China Minsheng Drawin Construction Technology Group Company Limited (formerly known as China Minsheng Drawin Construction Co., Ltd) ("CMDC"), under which CMDC shall act as the construction contractor of the construction project of Honghu Blue Valley Wisdom Square* (鴻鵠藍谷智慧廣場) developed by Swan Heng Chang. To further clarify the rights and obligations of both parties, both parties signed a supplemental agreement in January 2018 to further define the payment terms and other rights and obligations, and the contract price was agreed to be subject to actual settlement based on the actual quantities of work.

On 14 May 2019, Swan Heng Chang entered into the contract termination agreement with CMDC, under which the Construction Contract and the supplemental agreement were agreed to terminate. On 1 August 2019, both parties signed the settlement agreement, which determined the final settlement amount of RMB82.51 million.

In September 2020, CMDC filed a lawsuit with the Huicheng District People's Court of Huizhou City against Swan Heng Chang and its shareholder of Swan (Huizhou) Investment Company Limited* (鴻鵠(惠州)投資有限公司) ("Swan Investment") as co-defendants, requesting Swan Heng Chang to settle the construction payment and demanding Swan Investment to bear joint and several liabilities. The court heard the case on 6 January 2021.

On 14 April 2021, under the mediation of the court, Swan Heng Chang reached a settlement agreement with CMDC, under which the court issued a civil mediation order, which confirmed that the total amount payable by Swan Heng Chang to CMDC was RMB28.42 million and that Swan Investment was jointly and severally liable for the settlement of the debt. Such construction debts amounted to RMB28.42 million have been recognised as other payable of the Group since the financial year ended 31 December 2020.

On 3 December 2021, Swan Heng Chang and Swan Investment were listed by the court as persons subject to enforcement for failing to fulfill their obligations under the civil mediation order. On 10 March 2022, upon application by CMDC, the land use right legally owned by Swan Heng Chang was seized by the Huizhou Court for the period from 10 March 2022 to 9 March 2025. Up to the date of this report, the parties are negotiating the settlement agreement and the relevant legal proceeding is still in process.

Save as disclosed above, the Group is not aware of any other significant proceedings instituted against the Group.

The Board believed that there will be no significant financial impact on the Group as sufficient impairment loss on the loan receivables has been provided and the unsettled construction debts has been recorded in the other payable to reflect the total liabilities of the Group.

* *The English names are for identification purpose only.*

## 46. MATERIAL RELATED PARTY TRANSACTIONS

### (a) Details of the balances with related party

The details of the balance with related party have been disclosed in note 31. In addition to those related party balances disclosed elsewhere in the consolidated financial statements, the Group had the following balances with its related parties as at the year ended.

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Loans payable to an related party (note (i)) | **70,000** | 240,000 |
| Loans payable to an related party (note (ii)) | **17,000** | – |
| Lease liabilities to an related party (note (v)) | **2,283** | – |
| Other payable to an related party (note (vi)) | **1,018** | – |

### (b) Related party transactions

Save as disclosed in elsewhere to the consolidated financial statements, the Group have the following related party transactions.

| Name of related party | Relationship | Nature of transaction | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|---|
| Kingston Finance Limited | Note (i) | Interest expenses of loan financing | **21,785** | 13,660 |
| Excellent Point Asia Limited | Note (ii) | Interest expenses of loan financing | **3,511** | – |
| Kingston Corporate Finance Limited | Note (iii) | Advisory fee of corporate services | **772** | 200 |
| Kingston Securities Limited | Note (iv) | Placing commission of placing agent service | **1,995** | – |
| Star Wing International Limited | Note (v) | Lease payment | **322** | – |
| ISP Interiors Limited | Note (vi) | Purchase of property, plant and equipment | **1,367** | – |

### (c) Compensation of key management personnel

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 44, is as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Short-term employee benefits | **9,348** | 10,576 |
| Post-employment benefits | **466** | 471 |
| | **9,814** | 11,047 |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 46. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Note:

(i) Kingston Finance Limited (the "Lender I") is indirectly wholly-owned by Mrs. Chu Yuet Wah ("Mrs. Chu"), who became a substantial shareholder of the Company effective from 29 June 2021.

Prior to Mrs. Chu becoming a substantial shareholder of the Company, on 19 March 2021 and on 10 May 2021, China Water Industry (HK) Limited (the "Borrower I"), a wholly-owned subsidiary of the Company entered into two loan agreements with the Lender for HK$80,000,000 (the "Loan A") and HK$30,000,000 (the "Loan B"), interest-bearing at a rate of 15% per annum and repayable within one year. Loan A was secured by the shares of two subsidiaries of the Company and corporate guarantee provided by the Company. Loan B was secured by the corporate guarantee provided by the Company. Loan B was fully settled on 24 February 2022. On 17 August 2022, partial repayment of HK$10,000,000 in respect of Loan A had been made and Loan A was mutually agreed to be repayable on demand.

On 30 September 2021, the Borrower I entered into a loan agreement with the Lender for HK$130,000,000 (the "Loan C") at an interest rate of 15% per annum and repayable within one year. Loan C was secured by the corporate guarantee provided by the Company. Loan C was fully settled on 21 July 2022.

On 29 April 2022, the Borrower I entered into a loan agreement with the Lender I for HK$10,000,000 (the "Loan D") at an interest rate of 12% per annum and repayable within one year. The drawdown date for Loan D was on 29 April 2022. Loan D was secured by the corporate guarantee provided by the Company but without any Group's assets was pledged to the Lender I. Loan D was fully settled on 21 July 2022.

(ii) On 24 January 2022, the Company (the "Borrower II"), entered into a loan agreement with Excellent Point Asia Limited (the "Lender II") for HK$33,000,000 (the "Loan E") , interest-bearing at a rate of 15% per annum and repayable within one year. On 24 May 2022, the Borrower II entered into a loan agreement with the Lender II for HK$5,000,000 (the "Loan F") at an interest rate of 12% per annum and repayable within one year. In addition, on 22 December 2022, the Borrower II entered into a loan agreement with the Lender II for HK$4,000,000 (the "Loan G") at an interest rate of 12% per annum and repayable within one year. Both Loan E, Loan F and Loan G were unsecured and unguaranteed. On 5 August 2022 and 7 September 2022, partial repayment of HK$25,000,000 in respect of the principal of Loan E had been made. The remaining principal balance of Loan E, Loan F and Loan G were mutually agreed to be repayable on demand. Lender II is wholly-owned by Mr. Zhu Yongjun ("Mr. Zhu"). Mr. Zhu is the Chairman and an Executive Director of the Company.

(iii) During the year, the advisory fee incurred for the provision of corporate finance services by Kingston Corporate Finance Limited was approximately HK$772,000 (2021: HK$200,000). Kingston Corporate Finance Limited is a subsidiary of Kingston Financial Group Limited. Mrs. Chu is the controlling shareholder of Kingston Financial Group Limited.

(iv) During the year, the placing commission incurred for the provision of placing agency services by Kingston Securities Limited was approximately HK$1,995,000. Kingston Securities Limited is a subsidiary of Kingston Financial Group Limited. Mrs. Chu is the controlling shareholder of Kingston Financial Group Limited.

(v) On 26 August 2022, South Top Investment Limited, a wholly-owned subsidiary of the Company as the tenant, entered into a tenancy agreement (the "Tenancy Agreement") with Star Wing International Limited (the "Landlord") for leasing Office H, 8/F, Kingston International Centre, 19 Wang Chiu Road, Kowloon Bay, Hong Kong (the "Premise"), for a term of three years with commencement of 2 months rent free renovation period from 20 July 2022. The Premises upon completion of renovation will be used as the principal office of the Group in Hong Kong. The Landlord is wholly-owned by Mrs. Chu. During the year, lease payment of approximately HK$322,000 has been made.

(vi) The Company engaged ISP Interiors Limited to carry out the fitting-out and interior work at the Premise (the "Engagement"). The fee for the Engagement was HK$1.37 million. ISP Interiors Limited (the "ISP interiors") is a wholly-owned subsidiary of ISP Holdings Limited (the "ISP"). Champ Key Holdings Limited (the "Champ Key") is a controlling shareholder of ISP. Champ Key is wholly-owned by Mrs. Chu.

Save as disclosed above, none of the other transactions constitute a connected transaction or exempted connected transaction as defined under the Listing Rules that is required to be disclosed.

## 47. EVENTS AFTER THE REPORTING PERIOD

(a) On 5 January 2023, 新中水(南京)再生資源投資有限公司 (for transliteration purpose only, New China Water (Nanjing) Renewable Resources Investment Company Limited) ("New China Water Nanjing"), an indirect non-wholly owned subsidiary of the Company, entered into the capital injection agreement ("Capital Injection Agreement") with 北京振徽節能環保科技有限公司 (for transliteration purpose only, Beijing Zhenhui Energy Saving and Environmental Protection Technology Co., Ltd.) ("Beijing Zhenhui") and 勃利縣中水皖龍可再生能源科技有限公司 (for transliteration purpose only, Boli County Zhongshui Wanlong Renewable Energy Technology Co., Ltd.) (the "Target Company"). Pursuant to the Capital Injection Agreement, New China Water Nanjing shall contribute RMB18,000,000 (equivalent to approximately HK$20,540,000) to the registered capital of the Target Company. Upon completion of the Capital Injection, (i) the registered capital of the Target Company will be increased from RMB12,000,000 (equivalent to approximately HK$13,693,000) to RMB30,000,000 (equivalent to approximately HK$34,233,000), and (ii) New China Water Nanjing and Beijing Zhenhui will hold as to 60% and 40% equity interest in the Target Company, respectively.

Beijing Zhenhui is a substantial shareholder of 霍邱徽沼可再生能源科技有限公司 (for transliteration purpose only, Huoqiu Huizhao Renewable Energy Technology Co., Ltd.), which in turn is an indirect non-wholly owned subsidiary of the Company.

(b) On 1 March 2023, China Water Industry (HK) Limited ("China Water (HK)"), an indirect wholly-owned subsidiary of the Company, and the Company (collectively, as Purchasers) entered into the (equity transfer agreement ("Equity Transfer Agreement") with 廣東粵財中小企業股權投資基金合夥企業(有限合夥) (for transliteration purpose only, Guangdong Yuecai Small and Medium-sized Enterprises Equity Investment Fund Partnership (Limited Partnership)) ("Guangdong Yuecai") and 珠海橫琴依星伴月投資合夥企業(有限合夥) (for transliteration purpose only, Zhuhai Hengqin Yixingbanyue Investment Partnership (Limited Partnership)) ("Zhuhai Hengqin") (collectively, as Vendors), pursuant to which the Vendors have agreed to sell to the Purchasers, and the Purchasers have agreed to purchase from the Vendors, the aggregate sale capital ("Aggregate Sale Capital") in the following manner: (i) Guangdong Yuecai has agreed to transfer 3.8451% of the equity interest in New China Water Nanjing (the "Sale Capital A") to China Water (HK); and (ii) Zhuhai Hengqin has agreed to transfer 0.0269% of the equity interest in New China Water Nanjing (the "Sale Capital B") to China Water (HK). The total consideration of approximately RMB81,340,955 (equivalent to approximately HK$92,574,000), which is determined based on the calculation of the repurchase price pursuant to the terms of the investment agreement dated 27 December 2019 entered into among 深圳前海粵財節能環保投資基金管理有限公司 (for transliteration purpose only, SZQH Energy-saving Environmental Protection Investment Fund Management Co., Ltd), China Water (HK) and New China Water Nanjing in relation to the investment of RMB60 million (equivalent to approximately HK$68,286,000) by the Previous Investor into New China Water Nanjing and the investment agreement dated 27 March 2020 entered into among Zhuhai Hengqin, China Water (HK) and New China Water Nanjing in relation to the investment of RMB420,000 (equivalent to approximately HK$478,000) by Zhuhai Hengqin into New China Water Nanjing.

## 48. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

| | |
|---|---|
| HKFRS 17 | Insurance Contracts and the related Amendments[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback[3] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 and Non-current Liabilities with Covenants[3] |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies[1] |
| Amendments to HKAS 8 | Definition of Accounting Estimates[1] |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1] |

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

[2] Effective for annual periods beginning on or after a date to be determined

[3] Effective for annual periods beginning on or after 1 January 2024

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

中國水業集團有限公司

CHINA WATER INDUSTRY GROUP LIMITED