



北控水務集團有限公司
BEIJING ENTERPRISES WATER GROUP LIMITED
(Incorporated in Bermuda with limited liability)
(Stock code: 371)

BEIJING ENTERPRISES WATER GROUP LIMITED

ANNUAL REPORT
2021



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Wang Danchang

Independent Non-executive Directors

Mr. Shea Chun Lok Quadrant
Mr. Zhang Gaobo
Mr. Guo Rui
Mr. Wang Kaijun
Mr. Chau On Ta Yuen

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric

AUDITORS

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

STOCK CODE

371

WEBSITE

www.bewg.net

REGISTERED OFFICE

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31 Victoria Street
Hamilton HM 10
Bermuda

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Hong Kong
Tel: (852) 2105 0800
Fax: (852) 2796 9972

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

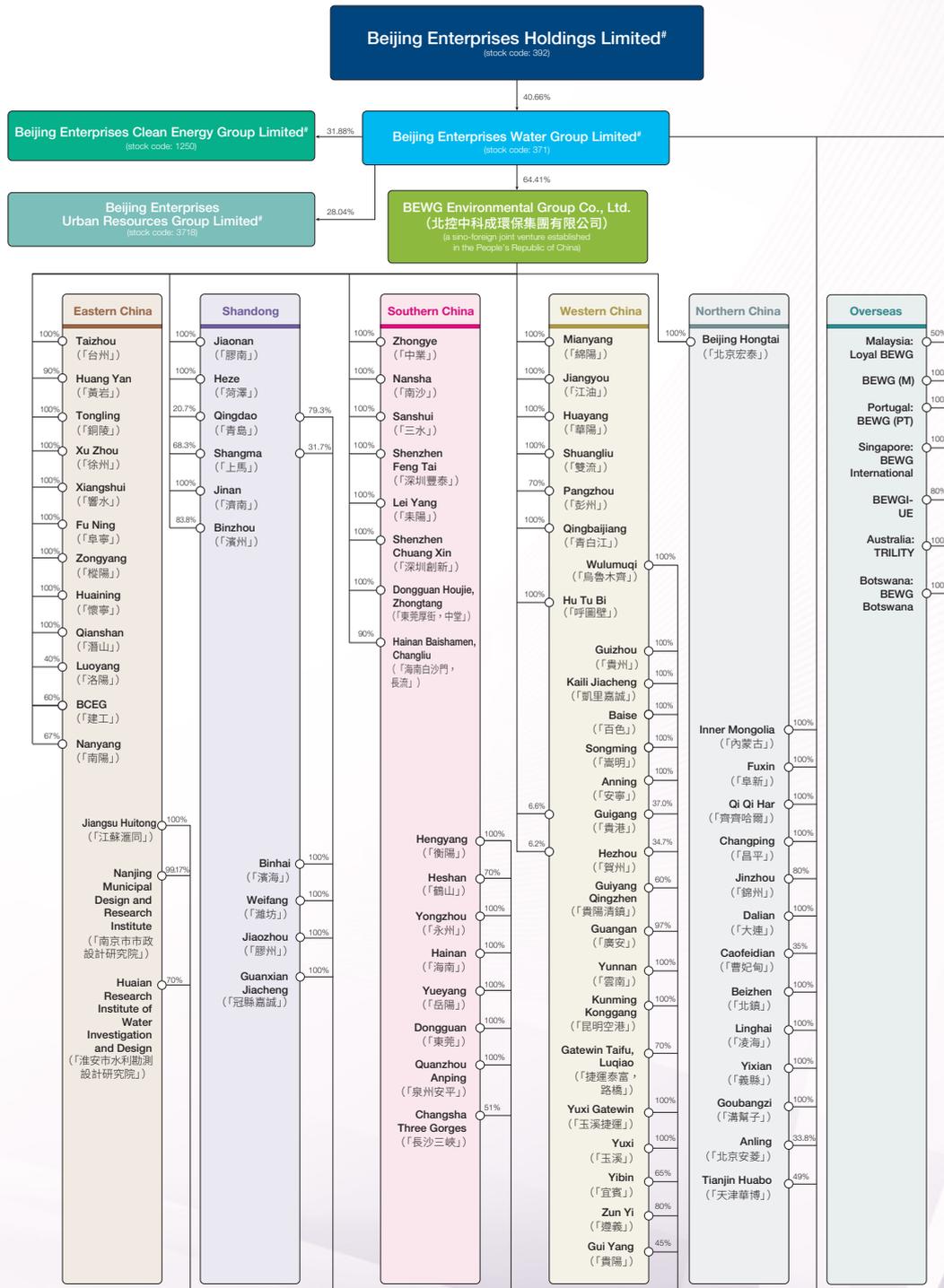
PRINCIPAL BANKERS

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

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

GROUP STRUCTURE

31 December 2021



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

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

CHAIRMAN'S STATEMENT

Dear shareholders,

In 2021, the general economy of China showed a healthy momentum with overall stability as pandemic prevention and control measures became ordinary. Beijing Enterprises Water Group Limited (the “Company” and, together with its subsidiaries, collectively referred to as the “Group”) upheld the operational objective of “customer orientation through innovation capability” by taking a revolutionary approach in its ongoing pursuit of operational excellence and delivery of quality products and services. With a significantly enhanced profit structure, consistently improving cash flow and a steady transformation towards an asset-light enterprise, the Group has laid a solid and sustainable foundation, which has facilitated a smooth implementation of the 14th Five-Year Plan.

With the support of the management and the departments at all levels across the Group, the Group has been focusing on its core business of water treatment and actively implementing the Yangtze River Protection. By co-operating with China Three Gorges Corporation (“CTG”), the Group has taken an active role in the new chapter of China's ecological progress.

PERFORMANCE REVIEW

Review of Principal Businesses

Adhering steadfastly to the development strategy of maintaining a portfolio that places equal values on light and heavy assets while keeping the expenditure within the limits of revenue, the Group managed to achieve stable growth in its annual results. For the year ended 31 December 2021, revenue was HK\$27,880.1 million, which increased by 9.9% year-on-year. Total profit attributable to shareholders of the Company amounted to HK\$4,195.9 million, which increased by 0.3% year-on-year. Basic earnings per share for the year was HK41.42 cents. In recognition of the continuous support of the shareholders to the Company, the board of directors of the Company (the “Board”) resolved to make a final cash dividend of HK6.7 cents per share to the shareholders.

While the pandemic continued to rage around the world in 2021, the staff of the Group has united as one in weathering such difficult times. The Group strictly complied with the pandemic-control regulations of local governments in order to ensure the health and safety of the staff, the sound operation of the water plants, the timely completion of projects and, hence, the satisfaction of the clients. Despite the immense challenges posed by the volatile development of the pandemic for the healthy development of environmental enterprises, the Group abided by the philosophy of safe development, strengthened its quality assets, stepped up risk control and secured ample cash reserves for expansion with the aims of taking a leadership role in the ecological industry and achieving mutual success and shared benefits with more business partners.

CHAIRMAN'S STATEMENT

Water treatment services

For the year ended 31 December 2021, the Group recorded a net increase in daily design capacity of 2,761,226 tons, bringing the total daily design capacity to 44,885,962 tons.

Affected by the global pandemic and the current external and internal situation, the room for market increment has shrunk. In 2021, the Group secured new contracts of water services involving a daily water volume of 3,960,221 tons, demonstrating the operation and delivery capacity and the market's full recognition of the Group. The newly-secured Luwan River project of 700,000 tons will allow the Group to expand its urban management operation by bringing its professionalism and capability into full play and to ensure the water safety of the urban areas by entering into long-term co-operation with the local governments.

The National Development and Reform Commission and the Ministry of Housing and Urban-Rural Development have jointly issued the 14th Five-Year Plan for Urban Sewage Treatment and Resources Utilisation Development Plan (《「十四五」城鎮污水處理及資源化利用發展規劃》) for promoting sewage resource utilisation, strengthening the operation and maintenance of water facilities and unleashing greater market demand. Being customer-oriented, the Group focused on boosting the quality and efficiency of urban sewage treatment and promoting ecological sewage resource utilisation with a scientific approach with an increase in reclaimed water treatment capacity of 761,000 tons per day during the year.

The introduction of the Measures for the Management of Urban Water Supply Prices (《城鎮供水價格管理辦法》) and the Measures for the Supervision and Examination of Pricing Cost of Urban Water Supply (《城鎮供水定價成本監審辦法》) have provided useful guidance for water supply enterprises to eliminate unreasonable charges and set the tariffs at levels that can compensate for the reasonable costs incurred for water supply. By focusing on the development of new businesses including water supply, pipe network construction and sewage recycling, the Group aims to explore new areas of growth with an enriched business portfolio.

The Group has devoted full efforts to vitalising rural economy. By standardising operation and maintenance procedures and setting up intelligent operation and maintenance platforms, it has provided professional and efficient services and constantly enhanced its operating capacity. As a key initiative and an exemplary model for the construction of a world-class ecological island and the revitalisation of rural economy, the Group's rural domestic sewage treatment project in Chongming District, Shanghai has commenced its full commercial operation during the year.

Regarding its overseas businesses, the Group has showed its agility in responding to the waves of global pandemic and taken various initiatives to ensure the steady advancement of production, operation and market expansion activities. With the aim of expanding into new business, proactive tenders have been submitted.

CHAIRMAN'S STATEMENT

Comprehensive renovation services

The Group has been fully committed to serving national strategies of protecting clear waters and lush mountains by actively participating in the Yangtze River Protection, further co-operating with CTG towards an asset-light model, enhancing its existing projects and exploring new co-operation models including “water keeper” services, thus establishing the groundwork for higher operational efficiency.

The Group is determined to achieve victory in the battle against pollution and has set up a smart industry platform covering the entire industry chain. With the launch of the smart platform for the operation management and control of the water environment along the Yuhangtang River, the smart platform for the operation and maintenance management and control of the water environment in Linyi and other projects, the Group aims to promote smart transformation and gain successful experience in the water environment sector.

Review of Other Businesses

Beijing Enterprises Clean Energy Group Limited, one of the group companies, has promoted the healthy growth of the businesses of photovoltaic power generation, wind power generation and clean heat supply. With a gradual enhancement in production and operation, it will further promote the high-quality development of its new generation clean energy business.

Beijing Enterprises Urban Resources Group Limited, another group company, principally engages in the provision of environmental hygiene and hazardous waste treatment services. It has refined its business operation and carried out transformation in order to consistently improve service quality as well as customer satisfaction.

CHAIRMAN'S STATEMENT

CORPORATE MANAGEMENT AND CONTROL

Efficiently reducing pollution with the use of science and technology and supporting quality growth with a sustainable environment are among the approaches used to attain the clean water goal under the 14th Five-Year Plan. Guided by the country's strategic planning and driven by customers' and shareholders' needs, the Group has persistently enhanced the standard of its corporate governance, core technologies and innovation capacity in order to cater for the people's needs for a beautiful ecological environment.

Adhering to the strategic goals, the Group has developed a customer-centric and market-oriented organisational structure by carrying out reforms in its market investment system and regional segments. Extra efforts have been made in customer service, market development, regional penetration and co-operation so as to form a new market development system and build a reliable brand image. The service delivery team has been strengthened to boost delivery capacity and customer satisfaction. With an enhanced operational management system and a basic principle of offering customers with excellent operational services, the Group has commenced its business restructuring from investment-focused to service-based.

The Group has put in place the digital strategies, which, together with the ecological and innovative strategies, will support the transformation towards an asset-light enterprise. With the support of smart water services and the basic goal of pursuing excellence in the "1+N" digitalised operation, the construction of the internet-of-things, which is based on the BECloud™ platform for smart water services, has been upgraded and enhanced. Greater focus has been laid on technological advancement by further exploring and implementing smart control. The Group has pioneered the development of BE-EMR, the first artificial intelligence robot in the industry, the introduction of which has shown the Group's efforts in using innovative technology for enhancing the efficiency of carbon reduction. To speed up digital transformation, the Group has also set up a smart industry platform covering the entire industry chain and established a system of digitalised competence for all business formats.

In 2021, the COVID-19 pandemic continued to take its toll around the world and the global economy was hard hit. In view of this, the Group further strengthened its cash flow management and improved its free cash flow in order to achieve higher capital efficiency. Cost management is a matter that the Group places a great deal of importance on, and the Group is the first in the industry to introduce a dynamic data and indicator library for lean management of project costs. The Group has adopted innovative ways in asset management with new industry asset management philosophy of optimised inventory with diligence and care. The BEWG Financial Shared Service Centre (北控水務財務共用服務中心), the first of its kind in the environmental sector, was established and was nominated for CGMA Global Management Accounting 2021 China Awards – Best Shared Service Center. Moreover, the successful issuance of different types of bonds with coupon rates repeatedly reaching all-time lows has highlighted the asset value, and improved the capital structure, of the Group. This has demonstrated the good reputation of the Group in the financial market and laid a strong financial cornerstone for the Group's quality and sustainable development.

CHAIRMAN'S STATEMENT

SUSTAINABLE DEVELOPMENT

In 2021, the Group has embarked on a cultural consensus project and achieved the operational objective of “customer orientation through innovation capability”. Rooted in its core values of “to be committed, to create value and to share with others”, it has defined its mission as “vitalising your life with our new water services” and vision as “becoming the world-class provider of reliable and leading water services and environmental services”. The medium-term and long-term strategic goals are to consistently acquire and manage assets in large amounts, apply technology and innovative models to new business growth, boost operational efficiency and realise corporate sustainability. With synergy across the units at all levels and co-operation between all departments, the Group strives for a consensus at the top management regarding areas from cultural identity to behavioural selfawareness, so as to foster sustainable development.

Adhering to its innovative strategies and focusing on the research and development (“R&D”) of innovative technology, the Group is dedicated to demonstrate customer orientation in its technological products. It makes use of innovative technology development model to strengthen ecological co-operation in areas of technology, expedite the accumulation of intellectual properties and strengthen the core competitiveness of its brands. By improving project-based R&D works, project commercialisation and product marketing, the Group aims to speed up the application of its technological achievements, thereby giving new impetuses to corporate transformation.

For the purpose of meeting the needs of the asset-light strategy as well as the environmental sector for high calibre and quality candidates, talent grooming is one of the Group’s priorities and the digitalisation of the human resource system has been continuously enhanced. The Group keeps motivating and exploring the potential of competent staff members who are able to meet its development requirements in order to ensure the supply of talent. Performance management is strengthened through reforms to inject fresh momentum to the organisation and give renewed vitality to employees.

In response to the country’s “3060 carbon peak and neutrality goals”, the Group takes initiatives to explore low-carbon treatment options in various aspects including policy support, understanding of vision, emission reduction techniques, new technology R&D, renewable energy operation and cross-sector collaboration, and to persistently boost the operational efficiency of its projects.

CHAIRMAN'S STATEMENT

FUTURE PROSPECT

The 14th Five-Year Plan period is crucial for the country's ecological progress towards pollution and carbon reduction, green development and environmental improvement, which present both opportunities and challenges for the industry. As 2022 is a bridging year for carrying on with its strategic goals, the Group will earnestly implement the corporate strategies by pooling the best brains, being committed to customer orientation, undergo organisational reform, promote collaboration with integrated operations, and pursue sustainable development.

The Group will continue to acquire and manage assets in large amounts, apply technology and innovative models to new business growth, boost operational efficiency and realise corporate sustainability. To pursue the operation objective of "customer orientation through innovation capability", it will establish a good brand image focusing on customers and innovation by strengthening customer engagement, improving customer experience and further boosting customer satisfaction. It will also vigorously acquire assets in large amounts. More efforts will be made to expand new businesses such as sludge treatment, pipe network construction, sewage recycling and urban "water keeper" services. Intrapreneurship and establishment of professional service companies are encouraged and operational efficiency will be further boosted. The human resource system will be restructured and core capabilities in capital and innovation will be built. The ultimate goal is to become a world-class provider of reliable and leading water services and environmental services.

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

Li Yongcheng

Chairman

30 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year attributable to shareholders of the Company increased to HK\$4,195.9 million. Revenue increased by 10% to HK\$27,880.1 million as a result of increase in revenue contribution from water treatment services.

1. FINANCIAL HIGHLIGHTS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%
2. Construction services for the water environmental renovation					
Construction services for comprehensive renovation projects					
– Projects with completion rate more than 10% ⁵	3,071.4	11%	26%	749.2	9%
– Interest income	–	–	–	450.9	6%
	3,071.4	11%	26%	1,200.1	15%
Construction of BOT water projects	9,533.2	34%	18%	1,191.8	14%
Subtotal	12,604.6	45%		2,391.9	29%
3. Technical services and sale of machineries for the water environmental renovation					
	4,061.3	15%	49%	1,151.4	14%
Business results	27,880.1	100%		8,321.5	100%
Others[#]				(4,125.6)	
Total				4,195.9	

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%
1. Water treatment services					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	5,919.0	23%	60%	2,555.2	
– Joint ventures and associates				279.8	
				2,835.0	37%
Overseas					
– Subsidiaries	338.6	1%	24%	37.3	–
	6,257.6	24%		2,872.3	37%
Water distribution services					
China					
– Subsidiaries	2,187.8	9%	48%	652.8	8%
– Joint ventures				193.5	2%
				846.3	10%
Overseas					
– Subsidiaries	515.5	2%	36%	132.8	2%
– Joint ventures				43.9	1%
				176.7	3%
	2,703.3	11%		1,023.0	13%
Subtotal	8,960.9	35%		3,895.3	50%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%
2. Construction services for the water environmental renovation					
Construction services for comprehensive renovation projects					
– Projects with completion rate more than 10% ⁵	4,311.6	17%	26%	874.9	11%
– Interest income	–	–	–	276.1	4%
	4,311.6	17%	26%	1,151.0	15%
Construction of BOT water projects	8,832.7	35%	23%	1,641.6	21%
Subtotal	13,144.3	52%		2,792.6	36%
3. Technical services and sale of machineries for the water environmental renovation	3,255.4	13%	52%	1,077.7	14%
Business results	25,360.6	100%		7,765.6	100%
Others[#]				(3,582.1)	
Total				4,183.5	

[#] Others included head office expense and other cost, net, of HK\$1,029.2 million, share of profit of joint ventures and associates of HK\$255.6 million, share award expenses of HK\$27.2 million, finance costs of HK\$2,549.1 million and profit attributable to holders of perpetual capital instruments of HK\$232.2 million. Others represented items that cannot be allocated to the operating segments.

⁵ Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$99.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the year ended 31 December 2021 and 2020 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	2021 HK\$'M	2020 HK\$'M	Increase/(Decrease) HK\$'M	%	2021 HK\$'M	2020 HK\$'M	Increase/(Decrease) HK\$'M	%
1. Water treatment services								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	7,674.1	5,919.0	1,755.1	30%	3,317.9	2,555.2	762.7	30%
– Joint ventures and associates					383.0	279.8	103.2	37%
					3,700.9	2,835.0	865.9	31%
<i>GP ratio</i>	58%	60%		(2%)				
Overseas								
– Subsidiaries	471.0	338.6	132.4	39%	69.0	37.3	31.7	85%
<i>GP ratio</i>	23%	24%		(1%)				
	8,145.1	6,257.6	1,887.5	30%	3,769.9	2,872.3	897.6	31%
Water distribution services								
China								
– Subsidiaries	2,526.0	2,187.8	338.2	15%	705.9	652.8	53.1	8%
– Joint ventures					149.2	193.5	(44.3)	(23%)
					855.1	846.3	8.8	1%
<i>GP ratio</i>	48%	48%		–				
Overseas								
– Subsidiaries	543.1	515.5	27.6	5%	127.2	132.8	(5.6)	(4%)
– Joint ventures					26.0	43.9	(17.9)	(41%)
					153.2	176.7	(23.5)	(13%)
<i>GP ratio</i>	34%	36%		(2%)				
	3,069.1	2,703.3	365.8	14%	1,008.3	1,023.0	(14.7)	(1%)
Subtotal	11,214.2	8,960.9	2,253.3	25%	4,778.2	3,895.3	882.9	23%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the year ended 31 December 2021 and 2020 is set out in details below: *(Continued)*

	Revenue				Profit attributable to shareholders of the Company			
	2021 HK\$'M	2020 HK\$'M	Increase/(Decrease) HK\$'M	%	2021 HK\$'M	2020 HK\$'M	Increase/(Decrease) HK\$'M	%
2. Construction services for the water environmental renovation								
Construction services for comprehensive renovation projects								
– Projects with completion rate more than 10%	3,071.4	4,311.6	(1,240.2)	(29%)	749.2	874.9	(125.7)	(14%)
– Interest income	–	–	–	–	450.9	276.1	174.8	63%
	3,071.4	4,311.6	(1,240.2)	(29%)	1,200.1	1,151.0	49.1	4%
<i>GP ratio</i>	26%	26%		–				
Construction of BOT water projects								
– China	9,533.2	8,832.7	700.5	8%	1,191.8	1,641.6	(449.8)	(27%)
<i>GP ratio</i>	18%	23%		(5%)				
Subtotal	12,604.6	13,144.3	(539.7)	(4%)	2,391.9	2,792.6	(400.7)	(14%)
3. Technical services and sale of machineries for the water environmental renovation								
	4,061.3	3,255.4	805.9	25%	1,151.4	1,077.7	73.7	7%
<i>GP ratio</i>	49%	52%		(3%)				
Business results	27,880.1	25,360.6	2,519.5	10%	8,321.5	7,765.6	555.9	7%
Others					(4,125.6)	(3,582.1)	(543.5)	15%
Total					4,195.9	4,183.5	12.4	–

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW

The principal businesses of the Group include operations in water treatment business, construction and technical services for the water environmental renovation. The coverage of the Group's water plants has extended to 20 provinces, 5 autonomous regions and 4 municipalities all across Mainland China.

2.1 Water treatment services

As at 31 December 2021, the Group entered into service concession arrangements and entrustment agreements for a total of 1,370 water plants and town-size sewage treatment facilities including 1,116 sewage treatment plants and town-size sewage treatment facilities, 191 water distribution plants, 61 reclaimed water treatment plants and 2 seawater desalination plants. Total daily design capacity for new projects secured for the year was 3,960,221 tons including Build-Operate-Transfer (“BOT”) projects of 1,069,500 tons, Transfer-Operate-Transfer (“TOT”) projects of 130,000 tons, Public-Private Partnership (“PPP”) projects of 1,275,600 tons, entrustment operation projects of 990,121 tons and 495,000 tons through mergers and acquisitions.

Due to different reasons such as expiration of projects, the Group exited projects with aggregate daily design capacity of 1,198,995 tons during the year. As such, the net increase in daily design capacity of the year was 2,761,226 tons. As at 31 December 2021, total daily design capacity was 44,885,962 tons.

During the year, the Group entered into three service concession arrangements for town-size sewage treatment projects with aggregate daily capacity of 117,690 tons.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

Analysis of projects on hand is as follows:

	Sewage treatment	Reclaimed water treatment	Water distribution	Seawater desalination	Total
<i>(Tons)</i>					
China					
In operation	16,831,055	1,689,200	9,372,836	–	27,893,091
Not yet commenced operation/ Not yet transferred	8,740,168	1,800,000	4,530,971	50,000	15,121,139
Subtotal	25,571,223	3,489,200	13,903,807	50,000	43,014,230
Overseas					
In operation	230,518	267,350	1,073,864	300,000	1,871,732
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	230,518	267,350	1,073,864	300,000	1,871,732
Total	25,801,741	3,756,550	14,977,671	350,000	44,885,962
<i>(Number of water plants and town-size sewage treatment facilities)</i>					
China					
In operation	845	31	121	–	997
Not yet commenced operation/ Not yet transferred	223	25	34	1	283
Subtotal	1,068	56	155	1	1,280
Overseas					
In operation	48	5	36	1	90
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	48	5	36	1	90
Total	1,116	61	191	2	1,370

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

	Number of plants and town-size sewage treatment facilities	Design capacity <i>(Tons/Day)</i>	Actual processing volume during the year* <i>(Tons (M))</i>	Revenue <i>(HK\$'M)</i>	Profit attributable to shareholders of the Company <i>(HK\$'M)</i>
Sewage and reclaimed water treatment services:					
Mainland China:					
– Southern China	326	4,140,590	1,314.7	1,751.6	842.7
– Western China	276	2,472,250	711.4	1,561.0	712.6
– Shandong	45	2,259,000	643.2	1,122.0	570.6
– Eastern China	120	5,281,776	1,395.7	1,710.2	715.2
– Northern China	109	4,366,639	1,088.3	1,529.3	859.8
	876	18,520,255	5,153.3	7,674.1	3,700.9
Overseas	53	497,868	113.0	471.0	69.0
Subtotal	929	19,018,123	5,266.3	8,145.1	3,769.9
Water distribution services:					
Mainland China	121	9,372,836	2,002.0	2,526.0	855.1
Overseas ⁵	37	1,373,864	145.5	543.1	153.2
Subtotal	158	10,746,700	2,147.5	3,069.1	1,008.3
Total	1,087	29,764,823	7,413.8	11,214.2	4,778.2

* Excluded entrustment operation contracts

⁵ Included a seawater desalination plant

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.1 Sewage and reclaimed water treatment services

2.1.1a Mainland China

As at 31 December 2021, the Group had 845 sewage treatment plants and town-size sewage treatment facilities and 31 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and town-size sewage treatment facilities and reclaimed water plants reached to 16,831,055 tons (31 December 2020: 14,197,237 tons) and 1,689,200 tons (31 December 2020: 1,179,200 tons), respectively. The average daily processing volume is 14,652,604 tons* and average daily treatment rate is 83%*. The actual average contracted tariff charge of water treatment was approximately RMB1.39 per ton (31 December 2020: RMB1.28 per ton) for water plants. The actual aggregate processing volume for the year was 5,153.3 million tons, of which 4,632.4 million tons was contributed by subsidiaries and 520.9 million tons was contributed by joint ventures and associates. Total revenue for the year was HK\$7,674.1 million. Net profit attributable to shareholders of the Company was HK\$3,700.9 million, of which HK\$3,317.9 million was contributed by subsidiaries and HK\$383.0 million was contributed by joint ventures and associates. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province, Fujian Province and Shaanxi Province. As at 31 December 2021, there were 326 plants and town-size sewage treatment facilities with total daily design capacity of 4,140,590 tons, representing an increase of 440,100 tons or 12% as compared with last year. The actual aggregate processing volume for the year amounted to 1,314.7 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$1,751.6 million and HK\$842.7 million respectively during the year.



* Excluded entrustments operation contracts

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

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

2.1.1a Mainland China *(Continued)*

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 31 December 2021, there were 276 sewage treatment plants and town-size sewage treatment facilities with total daily design capacity of 2,472,250 tons, representing an increase of 282,050 tons per day or 13% as compared with last year. The actual processing volume for the year was 711.4 million tons. The operating revenue of HK\$1,561.0 million was recorded during the year. Profit attributable to shareholders of the Company amounted to HK\$712.6 million.

Shandong

There were 45 plants and town-size sewage treatment facilities in Shandong region. The total daily design capacity of Shandong region is 2,259,000 tons, representing an increase of 380,000 tons per day or 20% as compared with last year. The actual processing volume for the year was 643.2 million tons contributing operating revenue of HK\$1,122.0 million during the year. Profit attributable to shareholders of the Company was HK\$570.6 million.

Eastern China

There were 120 water plants and town-size sewage treatment facilities in Eastern China which were mainly located in Zhejiang Province, Jiangsu Province, Henan Province and Anhui Province. As at 31 December 2021, the total daily design capacity of Eastern China had increased by 777,576 tons to 5,281,776 tons or 17% as compared with last year. The actual processing volume for the year amounted to 1,395.7 million tons and operating revenue was HK\$1,710.2 million during the year. Profit attributable to shareholders of the Company was HK\$715.2 million.



Northern China

Currently, the Group has 109 plants and town-size sewage treatment facilities under operation in Northern China. They are mainly located in Liaoning Province and Beijing. The daily design capacity of Northern China had increased by 1,264,092 tons to 4,366,639 tons or 41% as compared with last year. The projects achieved actual processing volume of 1,088.3 million tons for the year. The operating revenue was HK\$1,529.3 million during the year. Profit attributable to shareholders of the Company was HK\$859.8 million.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

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

2.1.1b Overseas:

As at 31 December 2021, the Group had 48 sewage treatment plants and 5 reclaimed water plants in Portugal, Singapore, Australia and New Zealand. Total daily design capacity in operation was 497,868 tons. The actual processing volume for the year is 113.0 million tons. Total revenue for the year was HK\$471.0 million. Profit attributable to shareholders of the Company was HK\$69.0 million.

2.1.2 Water distribution services

2.1.2a Mainland China:

As at 31 December 2021, the Group had 121 water distribution plants in operation. Total daily design capacity in operation was 9,372,836 tons (31 December 2020: 9,276,194 tons). The plants were located in Guizhou Province, Fujian Province, Guangdong Province, Hunan Province, Hebei Province, Shandong Province, Henan Province, Guangxi Province and Inner Mongolia Autonomous Region. The actual average contracted tariff charge of water distribution is approximately RMB2.10 per ton (31 December 2020: RMB2.04 per ton). The aggregate actual processing volume is 2,002.0 million tons, of which 1,097.6 million tons was contributed by subsidiaries, which recorded revenue of HK\$2,526.0 million and 904.4 million tons was contributed by joint ventures. Profit attributable to shareholders of the Company was HK\$855.1 million, of which profit of HK\$705.9 million was contributed by subsidiaries and a profit of HK\$149.2 million in aggregate was contributed by joint ventures.



2.1.2b Overseas:

As at 31 December 2021, the Group had 36 water distribution plants and a sea desalination plant which supplies drinking water in Portugal and Australia. Total daily design capacity in operation was 1,373,864 tons. The actual processing volume for the year is 145.5 million tons of which 86.0 million tons was contributed by subsidiaries and 59.5 million tons was contributed by joint ventures. Total revenue for the year was HK\$543.1 million. Profit attributable to shareholders of the Company was HK\$153.2 million.



MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.2 Construction services for the water environmental renovation

2.2.1 Construction services for comprehensive renovation projects

The Group had 20 comprehensive renovation projects under construction during the year. The projects mainly located in Sichuan Luzhou, Chengdu Jianyang, Inner Mongolia, Zhejiang Hangzhou and Hebei Hengshui. Last year, the Group had 27 comprehensive renovation projects under construction in Zhejiang Hangzhou, Chengdu Jianyang, Inner Mongolia, Sichuan Panzhihua and Hebei Hengshui.

Revenue from comprehensive renovation projects decreased by HK\$1,240.2 million from last year of HK\$4,311.6 million to HK\$3,071.4 million this year. To align with the Group's asset-light strategy, the investment approach on the comprehensive renovation projects is more conservative. As such, there was decrease in construction revenue during this year.

According to the construction contracts, the Group charges an interest on the trade receivables from the customers with reference to certain mark-up on The People's Bank of China's lending rate for the period from the completion of the construction to time of the receipt of the trade receivables. Interest income from water environmental renovation projects attributable to shareholders of the Company was HK\$450.9 million for this year (31 December 2020: HK\$276.1 million).



Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK\$49.1 million from last year of HK\$1,151.0 million to HK\$1,200.1 million this year.

2.2.2 Construction of BOT water projects

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

During the year, water plants under construction were mainly located in Guangdong, Shandong, Zhejiang, Hunan, Sichuan and Jiangsu provinces. Total revenue for construction of BOT water projects was HK\$9,533.2 million (31 December 2020: HK\$8,832.7 million) and profit attributable to shareholders of the Company was HK\$1,191.8 million (31 December 2020: HK\$1,641.6 million). Decrease in profit attributable to shareholders of the Company was mainly due to decrease in gross margin of BOT water projects during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

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

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

Revenue from the provision of technical services and sales of machineries was HK\$4,061.3 million (31 December 2020: HK\$3,255.4 million), representing 15% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$1,151.4 million (31 December 2020: HK\$1,077.7 million).

3. FINANCIAL ANALYSIS

3.1 Revenue

During the year, the Group recorded revenue of HK\$27,880.1 million (31 December 2020: HK\$25,360.6 million). The increase was mainly due to the increase in revenue from water treatment services.

3.2 Cost of sales

Cost of sales for the year amounted to HK\$17,430.5 million, compared to last year of HK\$15,630.9 million. The increase was mainly due to the increase in operating costs of water plants amounted to HK\$1,165.8 million and cost of technical and consultancy services rendered of HK\$513.1 million. Cost of sales mainly included construction costs of HK\$10,079.8 million and operating costs of water plants of HK\$5,266.9 million. The construction costs mainly consisted of subcontracting charges. The operating costs of water plants, mainly included electricity charges of HK\$996.3 million, staff costs of HK\$1,369.5 million and major overhaul charges of HK\$275.0 million; while the increase in operating costs was mainly due to increase in actual water processing volume. Major overhaul charges were the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangements. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to profit or loss based on amortisation method during the service concession periods.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.3 Gross profit margin

During the year, gross profit margin slightly decreased from last year of 38% to 37%.

Gross margin for sewage and reclaimed water treatment services:

Gross margin for sewage and reclaimed water treatment services in Mainland China was slightly decreased to 58% (last year: 60%). The slight decrease in gross margin was mainly due to recognition of one-off water treatment service income of some of the project companies during last year and increment in cost of raw materials (e.g. chemicals) during this year. Also there is a cancellation of government subsidies on the operating cost during this year as a result of economic recovery after the pandemic. Gross margin for sewage and reclaimed water treatment services in Overseas was 23% (last year: 24%).

Gross margin for water distribution services:

Gross margin for water distribution services in Mainland China was 48% (last year: 48%). Gross margin for water distribution services in Overseas was 34% (last year: 36%).

Gross margin for construction services for comprehensive renovation projects:

Gross margin for construction services for comprehensive renovation projects was 26% (last year: 26%).

Gross margin for construction of BOT water projects:

Gross margin for construction of BOT water projects was 18% (last year: 23%). Gross margin decreased as the prevailing market rate of gross margin decreased. As such, new BOT water projects have a relatively lower gross margin.

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

Gross margin for the technical services and sale of machineries for the water environmental renovation was 49% (last year: 52%). Gross margin decreased was mainly due to the change in mix of revenue during this year. The proportion of revenue contribution from technical services decreased as compared with the sale of machineries for the water environmental renovation. The gross margin of technical services is comparatively higher than the sale of machineries for the water environmental renovation.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$1,248.5 million during the year, compared to last year of HK\$1,312.6 million. The amount for this year mainly included sludge treatment income of HK\$154.3 million, pipeline installation income of HK\$332.3 million, government grant and subsidies of HK\$167.9 million and VAT refunds of HK\$181.4 million.

3.5 Administrative expenses

Administrative expenses for the year increased to HK\$3,158.4 million, compared to last year of HK\$2,526.2 million. The increase was mainly due to the increase in staff related expenses as result of business expansion and increase in research and development expenses during the year.

3.6 Other operating expenses, net

Other operating expenses for the year decreased to HK\$905.6 million, compared to last year of HK\$1,235.6 million. The decrease was mainly due to decrease in impairment losses recognised in current year.

3.7 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK\$1,912.0 million (31 December 2020: HK\$1,745.8 million) and interests on corporate bonds and notes payable of HK\$953.0 million (31 December 2020: HK\$1,032.2 million).

3.8 Share of profits of joint ventures

Share of profits of joint ventures increased to HK\$861.7 million, compared to last year of HK\$729.7 million. The increase was mainly due to increase in share of profits of the joint ventures which engaged in construction services for comprehensive renovation projects.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.9 Share of profits of associates

Share of profits of associates decreased to HK\$58.1 million, compared to last year of HK\$330.8 million. The decrease was mainly due to share of loss of Beijing Enterprises Clean Energy Group Limited.

3.10 Income tax expense

Income tax expense for the year included the current PRC income tax of HK\$776.5 million. The effective tax rate for the PRC operation was about 19% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax charge for the year was HK\$647.4 million.

3.11 Profit attributable to holders of perpetual capital instruments

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

3.12 Investment properties

Investment property represented a portion of a building located in Beijing which the Group held to earn rental income during the year. The investment property was stated at fair value.

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

The Group's total amounts due from contract customers, receivables under service concession arrangements and trade receivables of HK\$119,642.0 million (2020: HK\$112,467.8 million) included:

By accounting nature:

	2021			2020		
	Non-current HK\$'M	Current HK\$'M	Total HK\$'M	Non-current HK\$'M	Current HK\$'M	Total HK\$'M
(i) Amounts due from contract customers	36,255.5	3,798.7	40,054.2	42,314.2	3,091.7	45,405.9
(ii) Receivables under service concession arrangements	53,218.1	5,522.7	58,740.8	41,698.3	4,131.4	45,829.7
(iii) Trade receivables	11,956.1	8,890.9	20,847.0	12,277.1	8,955.1	21,232.2
Total	101,429.7	18,212.3	119,642.0	96,289.6	16,178.2	112,467.8

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

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

- (i) Amounts due from contract customers of HK\$40,054.2 million represent the balances of accumulated construction costs incurred to date plus recognised accumulated gross profits exceeding progress billings arising from BOT projects and comprehensive renovation projects during the phase of construction. Total balance decreased by HK\$5,351.7 million (non-current portion decreased by HK\$6,058.7 million and current portion increased by HK\$707.0 million), which was mainly due to reclassification to receivables under service concession arrangements as a result of operation commencement of certain BOT projects;
- (ii) Receivables under service concession arrangements of HK\$58,740.8 million represent the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts arising from BOT and TOT projects. The increase in balance by HK\$12,911.1 million (non-current portion increased by HK\$11,519.8 million and current portion increased by HK\$1,391.3 million) was mainly due to reclassification from amounts due from contract customers as a result of operation commencement of certain BOT projects; and
- (iii) Trade receivables of HK\$20,847.0 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The balance decreased by HK\$385.2 million (non-current portion decreased by HK\$321.0 million and current portion decreased by HK\$64.2 million).

By business nature:

	2021 <i>HK\$'M</i>	2020 <i>HK\$'M</i>
Water treatment services by BOT and TOT projects	83,483.8	76,823.7
Construction services of comprehensive renovation projects	31,445.5	31,486.2
Technical and consultancy services and other businesses	4,712.7	4,157.9
Total	119,642.0	112,467.8

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

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

Total receivables, which relates to the BOT and TOT projects, recognised under the service concession agreements in accordance with the HK(IFRIC)-Int 12 Service Concession Arrangements were HK\$83,483.8 million (2020: HK\$76,823.7 million). Total receivables for the construction service of comprehensive renovation projects were HK\$31,445.5 million (2020: HK\$31,486.2 million). Total receivables for technical and consultancy services and other businesses were HK\$4,712.7 million (2020: HK\$4,157.9 million).

3.14 Operating concessions

Operating concessions represents rights that the Group can charge users under service concession contracts. It is a non-guarantee receipt right to receive cash because the chargeable amounts are contingent on the extent that the users use the service. The balance arises from BOT and TOT projects in operation. Increase was mainly due to reclassification from amounts due from contract customers as a result of operation commencement of certain BOT projects.

3.15 Investments in joint ventures

Investments in joint ventures increased by HK\$992.6 million, mainly due to share of profits during the year.

3.16 Investments in associates

Investments in associates increased by HK\$174.4 million, mainly due to share of profits and exchange fluctuation reserve during the year.

3.17 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK\$167.6 million (non-current portion decreased by HK\$10.0 million and current portion increased by HK\$177.6 million), mainly due to the increase in amount due from joint ventures and associates.

3.18 Cash and cash equivalents

Cash and cash equivalents decreased by HK\$3,954.5 million which was mainly utilised for acquisition and construction of various water projects in the PRC during the year.

3.19 Other payables and accruals

Other payables and accruals decreased by HK\$547.0 million. The decrease was mainly due to the decrease in amount due to joint ventures during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

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

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

3.21 Perpetual capital instruments

Perpetual capital instruments with principal amount of RMB1,000 million and RMB1,500 million were issued on 30 August 2021 and 25 October 2021 respectively for the purpose of partial repayment of the perpetual capital instruments with an aggregate principal amount of RMB5,600 million issued in 2016. There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the Group subject to certain conditions. The perpetual capital instruments are classified as equity instruments.

3.22 Non-controlling interests

Non-controlling interests increased by HK\$7,327.9 million. Increase was mainly due to capital contributions of RMB4,490 million into a subsidiary from Hangzhou Xiaoshan Ping An Cornerstone II Equity Investment Co., Ltd.[#] (杭州蕭山平安基石貳號股權投資有限公司) during the year.

3.23 Bank and other borrowings

Bank and other borrowings increased by HK\$7,040.2 million. Increase in bank and other borrowings was mainly from new bank loans utilised to finance for the acquisition and construction of various water projects in the PRC during the year.

3.24 Corporate bonds

Corporate bonds decreased by HK\$3,007.2 million mainly due to the issuance of three new corporate bonds with total principal amount of RMB3,500 million while corporate bonds with principal amount of RMB6,150 million and MYR90 million were repaid during the year.

3.25 Trade payables

The decrease in trade payables by HK\$1,350.5 million was mainly due to decrease in trade payables to subcontractors for construction services of the water environmental renovation projects during the year.

3.26 Deferred Income

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

[#] for identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.27 Liquidity and financial resources

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

As at 31 December 2021, the Group's cash and cash equivalents amounted to HK\$10,742.7 million (31 December 2020: HK\$14,697.2 million).

The Group's total borrowings amounted to HK\$76,113.5 million (31 December 2020: HK\$72,286.3 million) comprised bank and other borrowings of HK\$56,673.9 million (31 December 2020: HK\$49,633.7 million), notes payable of HK\$2,438.6 million (31 December 2020: HK\$2,379.7 million), corporate bonds of HK\$17,001.0 million (31 December 2020: HK\$20,008.2 million) and finance lease payables* of nil (31 December 2020: HK\$264.7 million). All the corporate bonds and notes payable bear interest at fixed rates. Over 90% of bank and other borrowings bear interest at floating rates.

As at 31 December 2021, the Group had banking facilities amounting to HK\$60.0 billion, of which HK\$35.9 billion have not been utilised. The banking facilities are of 1 to 20 years term.

The Group's total equity amounted to HK\$63,548.8 million (31 December 2020: HK\$57,124.0 million).

The gearing ratio as defined as sum of bank and other borrowings, finance lease payables, notes payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 1.03 as at 31 December 2021 (31 December 2020: 1.01). The increase in the gearing ratio as at 31 December 2021 was mainly due to the increase in bank and other borrowings during the year. The corresponding funds were mainly utilised for the acquisition and construction of various water projects in the PRC.

3.28 Capital expenditures

During the year, the Group's total capital expenditures were HK\$10,709.6 million (31 December 2020: HK\$9,567.4 million), of which HK\$649.0 million was paid for the acquisition of property, plant and equipment, right-of-use assets and intangible assets; HK\$9,643.1 million represented the construction and acquisition of water plants; and HK\$417.5 million represented the consideration for acquisition of equity interests in equity investments and capital injections in joint ventures and associates.

* The balance as at 31 December 2020 was included in lease liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group employed 17,888 employees. Total staff cost for the year ended 31 December 2021 was HK\$3,622,166,000 (year ended 31 December 2020: HK\$3,149,616,000). The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses, share options and share awards are awarded to certain employees according to the assessment of individual performance. On 24 April 2013, the Company had granted 400,000,000 share options at an exercise price of HK\$2.244 per share under a share option scheme adopted on 28 June 2011 for the Group's directors and employees (the "Scheme"). On 28 March 2014, the Company had granted the then independent non-executive director of the Company 2,000,000 share options at an exercise price of HK\$5.18 per share under the Scheme. The Scheme was expired on 27 June 2021. 114,226,000 share options were exercised, no share option was lapsed or cancelled during the year ended 31 December 2021. As at 31 December 2021, the Company had 140,500,000 share options outstanding which were granted on 24 April 2013 and 2,000,000 share options outstanding which were granted on 28 March 2014. The total outstanding share options represented approximately 1.41% of the Company's ordinary shares in issue as at 31 December 2021. On 26 September 2019, the Company had granted 15,374,599 awarded shares pursuant to the share award scheme adopted on 17 December 2018 for the group's certain directors, employees and consultants (the "Share Award Scheme"). All the awarded shares were vested or lapsed during the year ended 31 December 2020. On 1 November 2021, the Company had granted 12,471,409 awarded shares pursuant to the Share Award Scheme. As at 31 December 2021, the Company had 140,920 awarded shares outstanding which represented approximately 0.0014% of the Company's ordinary shares in issue.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year ended 31 December 2021, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGES ON THE GROUP'S ASSETS

The secured bank and other borrowings, the corporate bonds and the notes payable of the Group as at 31 December 2021 are secured by:

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

Save as disclosed above, at 31 December 2021, the Group did not have any charges on the Group's assets.

FOREIGN EXCHANGE EXPOSURE

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Board Composition

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

Executive Directors (the “EDs”)

Mr. Li Yongcheng (*Chairman*)

Mr. Jiang Xinhao

Mr. Zhou Min (*Chief Executive Officer*)

Mr. Li Haifeng

Mr. Zhang Tiefu

Mr. Ke Jian

Ms. Sha Ning

Mr. Tung Woon Cheung Eric

Mr. Li Li

Non-executive Directors (the “NED”)

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

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

Independent Non-executive Directors (the “INEDs”)

Mr. Shea Chun Lok Quadrant

Mr. Zhang Gaobo

Mr. Guo Rui

Mr. Wang Kaijun

Mr. Chau On Ta Yuen (*appointed on 23 April 2021*)

Dr. Lee Man Chun Raymond (*resigned on 23 April 2021*)

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Composition *(Continued)*

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

Role and Function

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

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

According to the records maintained by the Company, the Directors who were held office during the year ended 31 December 2021 received the following training in respect of the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Listing Rules on continuous professional development during the year ended 31 December 2021.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Role and Function *(Continued)*

Name of Director	Corporate Governance/ Updates on Laws, Rules & Regulations		Accounting/Financial/ Management or Other Professional Skills	
	Read Materials	Attended Seminars/ Briefing	Read Materials	Attended Seminars/ Briefing
EDs				
Mr. Li Yongcheng <i>(Chairman)</i>	✓	✓		
Mr. Jiang Xinhao	✓	✓		
Mr. Zhou Min <i>(Chief Executive officer)</i>	✓	✓		
Mr. Li Haifeng	✓	✓	✓	
Mr. Zhang Tiefu	✓	✓		
Mr. Ke Jian	✓	✓		
Ms. Sha Ning	✓	✓		
Mr. Tung Woon Cheung Eric	✓	✓	✓	✓
Mr. Li Li	✓			
NED				
Mr. Zhao Feng	✓	✓		
INEDs				
Mr. Shea Chun Lok Quadrant	✓	✓	✓	✓
Mr. Zhang Gaobo	✓	✓		
Mr. Guo Rui	✓	✓		
Mr. Wang Kaijun	✓	✓		
Mr. Chau On Ta Yuen <i>(appointed on 23 April 2021)</i>	✓			
Dr. Lee Man Chun Raymond <i>(resigned on 23 April 2021)</i>	–	–	–	–

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Meeting and General Meeting

The Company held four Board meetings and two general meetings during the financial year ended 31 December 2021. Directors present in those Board meetings were either in person or through electronic means of communication. Attendance records of the Board meetings and general meetings for the year ended 31 December 2021 are set out below:

Name of Director	Number of Board meeting attended/held	Number of general meeting attended/held
EDs		
Mr. Li Yongcheng (<i>Chairman</i>)	4/4	0/2
Mr. Jiang Xinhao	4/4	0/2
Mr. Zhou Min (<i>Chief Executive Officer</i>)	4/4	0/2
Mr. Li Haifeng	4/4	0/2
Mr. Zhang Tiefu	4/4	0/2
Mr. Ke Jian	4/4	0/2
Ms. Sha Ning	4/4	0/2
Mr. Tung Woon Cheung Eric	4/4	2/2
Mr. Li Li	4/4	0/2
NED		
Mr. Zhao Feng	4/4	0/2
INEDs		
Mr. Shea Chun Lok Quadrant	4/4	1/2
Mr. Zhang Gaobo	4/4	1/2
Mr. Guo Rui	4/4	0/2
Mr. Wang Kaijun	4/4	0/2
Mr. Chau On Ta Yuen (<i>appointed on 23 April 2021</i>)	2/4	1/2
	(Note 1)	(Note 1)
Dr. Lee Man Chun Raymond (<i>resigned on 23 April 2021</i>)	0/4	N/A
	(Note 2)	(Note 2)

Notes:

- Mr. Chau On Ta Yuen was appointed as an independent non-executive director of the Company on 23 April 2021 without attending the first board meeting held during the year.
- Dr. Lee Man Chun Raymond resigned as an independent non-executive director of the Company on 23 April 2021 without attending the second to fourth board meetings held during the year, annual general meeting held on 9 June 2021 and special general meeting held on 20 December 2021.

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

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

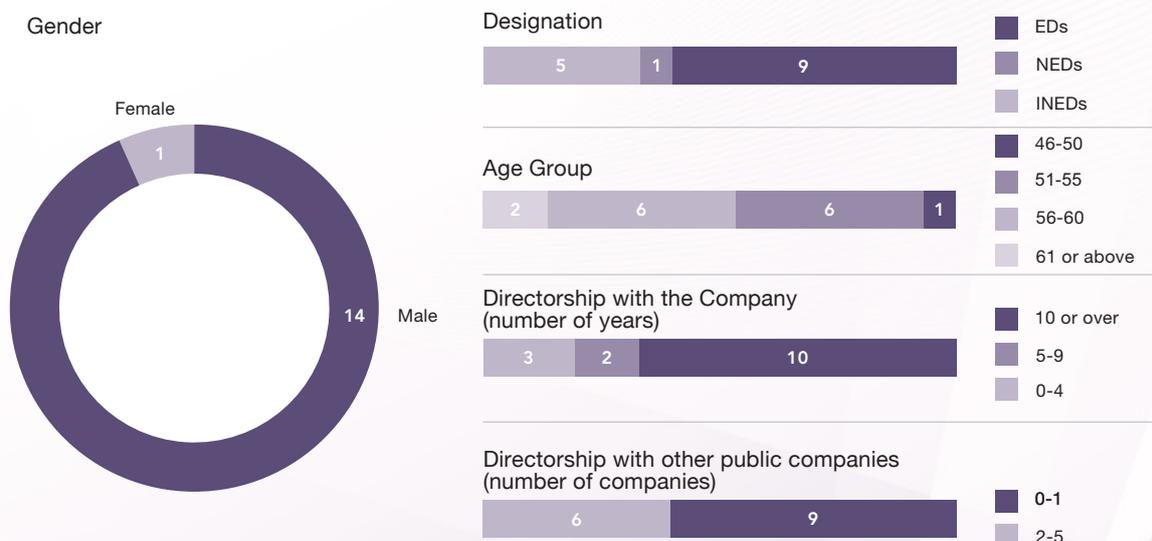
CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

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

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

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



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

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the financial year ended 31 December 2021, the positions of the chairman and the chief executive officer of the Company were held separately. The chairman of the Company is Mr. Li Yongcheng and the chief executive officer is Mr. Zhou Min. The segregation of duties of the chairman and the chief executive officer ensures a clear distinction in the chairman's responsibility to provide leadership for the Board and the chief executive officer's responsibility to manage the Company's business. Their roles are clearly defined to ensure their respective independence. There is no relationship between the chairman and chief executive officer of the Board in respect of financial, business, family or other material/relevant relationship.

NON-EXECUTIVE DIRECTORS

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

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

Audit Committee

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

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

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

Corporate Governance Duties

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

Sustainable Development Duties

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

Sustainable Development Duties *(Continued)*

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

Summary of work done during the year: reviewed the financial statements for the period from 1 January 2021 to 30 June 2021 and for the year ended 31 December 2021, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company, the risk management and internal control systems, the Company's compliance with the CG Code and environmental, social and governance reporting guide and disclosure in the corporate governance report and environmental, social and governance report.

The Audit Committee held two meetings during the financial year ended 31 December 2021. Details of attendance of each Audit Committee members are as follows:

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

Nomination Committee

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

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

The major responsibilities of the Nomination Committee include:

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Nomination Committee *(Continued)*

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

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

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

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

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

Remuneration Committee

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

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

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

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

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

AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditors and reviewing the non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, external auditors' remuneration for audit services was approximately HK\$12.0 million and for non-audit service assignments was approximately HK\$2.7 million, which represented agreed-upon procedures engagement such as for the Group's interim financial report, taxation advisory and compliance services. The Audit Committee had satisfied that the non-audit services in 2021 did not affect the independence of the external auditors.

RISK MANAGEMENT AND INTERNAL CONTROL

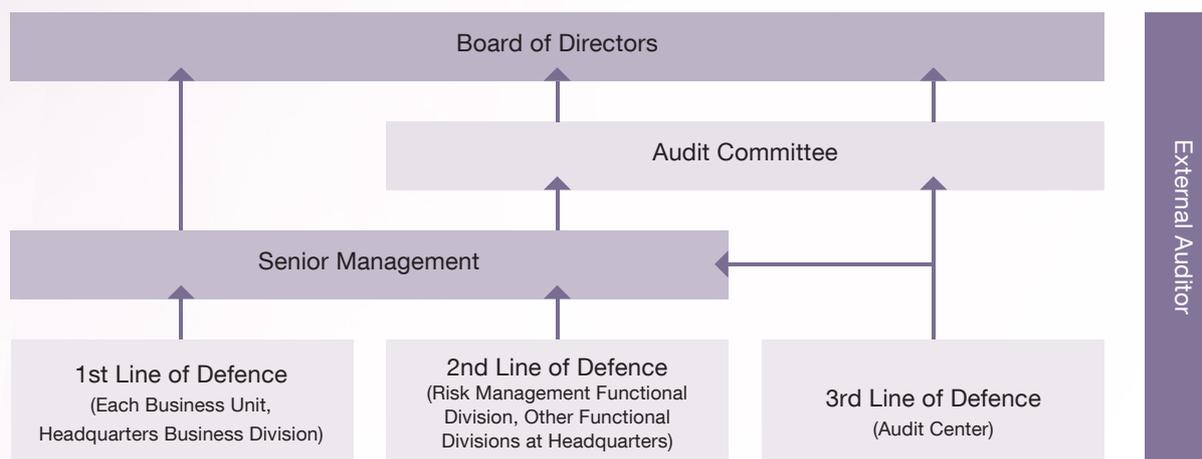
The Board has the overall responsibility for evaluating and determining the nature and extent of the risks that may be exposed to the Group and ensuring that the Group maintains sound and effective risk management and internal control systems in order to safeguard the interest of shareholding and the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

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

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

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



First Line of Defence

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

Second Line of Defence

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

Third Line of Defence

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

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Third Line of Defence *(Continued)*

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

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

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

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

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

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

For the year ended 31 December 2021, both the Audit Committee and the Board were not aware of any material internal control deficiencies and were satisfied that the risk management and internal control systems of the Group are effective and adequate.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Third Line of Defence *(Continued)*

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

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

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

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

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the accounts for the year ended 31 December 2021, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

The responsibility of Ernst & Young, the Company's external auditors, is set out on page 91 to 97 of the "Independent Auditors' Report" in this annual report.

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric, as the executive Director, is also the company secretary of the Company. During the year ended 31 December 2021, Mr. Tung has complied with the relevant professional training required under Rule 3.29 of the Listing Rules. The biographical details of Mr. Tung is set out in the section headed "Directors and Senior Management" on page 52 in this annual report.

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY

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

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

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

SHAREHOLDERS' RIGHTS

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

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

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

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

Procedures for directing shareholders' enquiries to the Board

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

Procedures for putting forward proposals at shareholders' meetings

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

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

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

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

Communication with shareholders

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

During the financial year ended 31 December 2021, due to the influence of the outbreak of novel coronavirus disease ("COVID-19") pandemic, the Group has strictly abided by the epidemic prevention requirements from local governments in China and proactively taken the following measures to cope with the negative impacts of the COVID-19 pandemic, in order to ensure effective shareholders' communication and enhance our transparency:

1. maintained timely and effective contacts with research analysts, institutional shareholders and potential investors through various channels including but not limited to meetings such as virtual-conference meeting, conference-calls and emails; and
2. updated the Company's latest news and developments regularly through the 'Investor Relations' section of the Company's official website and enterprise social media, in order to spread over all kinds of investors especially for medium and small investors.

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

Constitutional documents

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

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2021, in the opinion of the Board, the Company complied with all code provisions set out in the CG Code, with deviation mentioned below.

Code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend the annual general meeting of the Company. Having regard to the travel restrictions in connection with the COVID-19 pandemic, the chairman of the Board did not attend the annual general meeting of the Company held on 9 June 2021. In his absence, the executive director of the Company was invited to chair the annual general meeting and the member of nomination committee of the Company was invited to attend by video/audio conferencing, and was available to answer shareholders' questions at the annual general meeting.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Li Yongcheng (“Mr. Li”), aged 60, was appointed as an executive director and the chairman of the Company on 29 October 2014. Mr. Li is also the chairman of nomination committee of the Company. Mr. Li is currently vice chairman and executive deputy general manager of Beijing Enterprises Group Company Limited. Mr. Li is an executive director and chairman of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd. Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master’s degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li possesses extensive experience and professional expertise in public utilities industry, and also has plenty of experience in enterprise operations and capital operations.

Mr. Jiang Xinhao (“Mr. Jiang”), aged 57, was appointed as an executive director of the Company in June 2008. Mr. Jiang serves as a vice general manager of Beijing Enterprises Group Company Limited, an executive director and vice chairman of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange. Mr. Jiang is also a non-executive director of China Gas Holdings Limited (Stock Code: 384), a company listed on the main board of the Stock Exchange. Mr. Jiang was an executive director of Beijing Properties (Holdings) Limited (Stock Code: 925), a company listed on the main board of the Stock Exchange between 2011 and 2016. Mr. Jiang is a senior economist and graduated from Fudan University in 1987 with a bachelor’s degree in law, and then in 1992 with a master’s degree in law from Fudan University. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a deputy general manager of Jingtai Finance Company in Hong Kong, and subsequently a director and vice president of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a director and the chief executive officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a manager of the investment development department of Beijing Holdings Limited and a general manager of Beijing BHL Investment Center between May 2000 and February 2005. Mr. Jiang has many years of experience in economics, finance and corporate management.

Mr. Zhou Min (“Mr. Zhou”), aged 58, was appointed as an executive director of the Company in August 2008 and the chief executive officer of the Company on 30 March 2016. Mr. Zhou is also a non-executive director and the chairman of Beijing Enterprises Urban Resources Group Limited (Stock Code: 3718), a company listed on the main board of the Stock Exchange. Mr. Zhou graduated with an EMBA from the Tsinghua University and is the vice chairman of Mianyang Zhejiang Chamber of Commerce (綿陽市浙江商會). Mr. Zhou previously worked in the People’s Bank of China, Yongkang Branch of Zhejiang Province (浙江省人民銀行永康支行), the Industrial and Commercial Bank of China, Yongkang Branch of Zhejiang Province (浙江省工商銀行永康支行), and was the chairman of Beijing Jingsheng Investment Company Limited (北京景盛投資有限公司). Mr. Zhou is now the chairman of BEWG Environmental Group Co., Ltd.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Li Haifeng, formerly known as 李海峰, aged 51, was appointed as an executive director and a vice president of the Company in August 2008. He is also a non-executive director of Beijing Enterprises Urban Resources Group Limited (Stock Code: 3718), a company listed on the main board of the Stock Exchange. He graduated with a bachelor's degree in Laws from the Peking University. He was an assistant to president of Founder Group (方正集團) and the executive vice president of Founder Xintiandi Software Technology Co. Ltd. (方正新天地軟件科技有限公司). He is currently an executive director, the chairman and the chief executive officer of Carry Wealth Holdings Limited (Stock Code: 643), a company listed on main board of the Stock Exchange.

Mr. Zhang Tiefu, aged 59, was appointed as an executive director and a vice president of the Company in April 2009. He is also an executive director and the joint chairman of Beijing Enterprises Clean Energy Group Limited (Stock Code: 1250), a company listed on the main board of the Stock Exchange. He graduated from Jilin Industrial Institute with a bachelor's degree of engineering in 1983. He further studied business administration in the University of International Business and Economics in 1998. He has been awarded the titles of senior engineer and senior international finance manager. He served as the senior manager in China Nation Printing Materials Corporation (中國印刷物資總公司) in 1986. He joined Beijing Enterprises Holdings Limited as manager in 2001, and was concurrently acting the director and a general manager of Beijing Bei Kong Water Production Co., Ltd. (北京北控制水有限公司) and a director of Beijing Yanjing Beer Co., Ltd. (北京燕京啤酒有限公司). He has extensive experiences in economics, market development and corporate management.

Mr. Ke Jian ("Mr. Ke"), aged 53, was appointed as an executive director of the Company in June 2011 and is a vice president of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange and an executive director and the chairman of Beijing Enterprises Environment Group Limited (Stock Code: 154), a company listed on the main board of the Stock Exchange. Mr. Ke is a PRC chief senior accountant, certified tax agent and senior international finance manager. Mr. Ke received a bachelor's degree in economics from Beijing College of Finance and Commerce and a MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration.

Ms. Sha Ning ("Ms. Sha"), aged 51, was appointed as an executive director of the Company in January 2020 and is a vice president of Beijing Enterprises Holdings Limited (the "BEHL") (Stock Code: 392), a company listed on the main board of the Stock Exchange and also serves as an executive director of Beijing Enterprises Environment Group Limited (Stock Code: 154), a company listed on the main board of the Stock Exchange. Ms. Sha graduated from the Business and Economics Faculty of Heilongjiang Institute of Commerce in 1992, and studied Accounting in Beijing School of Business and Capital University of Economics and Business. She obtained an EMBA degree from The Hong Kong University of Science and Technology, and was granted the title of PRC Senior Accountant. Ms. Sha joined BEHL since 2001 and has accumulated extensive experience in financial management.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Tung Woon Cheung Eric (“Mr. Tung”), aged 51, was appointed as an executive director of the Company in August 2011. Mr. Tung is the chief financial officer and company secretary of the Company. Mr. Tung is also the chief financial officer and general manager of the finance department of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange, the company secretary of Biosino Bio-Technology and Science Incorporation* (Stock Code: 8247), a company listed on GEM of the Stock Exchange and an independent non-executive director of South China Financial Holdings Limited (Stock Code: 619) and GR Properties Limited (Stock Code: 108), both of which are listed on the main board of the Stock Exchange. Mr. Tung graduated from York University, Toronto, Canada with a bachelor’s honours degree in administrative studies. He is a Hong Kong Certified Public Accountant and a U.S. licensed practice Certified Public Accountant.

Mr. Li Li, aged 56, was appointed as an executive director of the Company in February 2014 and the chief operating officer of the Company on 30 March 2016. He is a Senior Engineer and qualified Senior Project Manager. Mr. Li Li joined the Company in October 2010. Mr. Li Li is also a non-executive director of Beijing Enterprises Urban Resources Group Limited (Stock Code: 3718), a company listed on the main board of the Stock Exchange. Mr. Li Li graduated from Xian Jiaotong University in mechanical engineering and PhD in engineering at School of Environment, Tsinghua University. Prior to joining the Company, Mr. Li Li was then a senior engineer, a technical quality director and vice president of the First Design & Research Institute (now known as First Design and Research Institute M1 China Co., Ltd.). Mr. Li Li served as various key positions of 北京桑德環保集團有限公司 (Beijing Sound Environmental Group Company Limited*) from 2001 to 2010. He has extensive experience in investment, construction and operation in water industry.

Non-executive Director

Mr. Wang Dianchang (“Mr. Wang”), aged 49, was appointed as a non-executive director of the Company in March 2022. Mr. Wang is the chairman of Yangtze Ecology and Environment Co. Ltd., an executive director of Yangtze Ecology and Environment (HK) Investment Limited and supervisor of the Yangtze Ecology and Environment Engineering Research Center of China Three Gorges Corporation. Mr. Wang holds a doctor’s degree in engineering from Tsinghua University and is a senior engineer. Mr. Wang has extensive experience in ecological environmental protection. Mr. Wang has post-doctoral working experience in Max Planck Institute of Marine Microbiology in Germany. He was the deputy commissioner, commissioner and deputy director of the reservoir management department of the Three Gorges Office of the State Council, deputy director of the comprehensive department, deputy supervisor and supervisor of the environmental protection department of China Three Gorges Corporation.

* for identification purpose only

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Non-executive Director *(Continued)*

Mr. Zhao Feng (“Mr. Zhao”), aged 51, was appointed as a non-executive director of the Company in January 2021 and resigned on 15 March 2022. Mr. Zhao is an executive director of Yangtze Ecology and Environment (HK) Investment Limited. Mr. Zhao holds a master’s degree in business administration from Chongqing University and is a senior economist. Mr. Zhao possesses extensive experience in production, management and marketing in the electricity industry. He was an electrical control engineer and an officer of the human resources department (organization department) of Gezhouba Hydropower Generation Plant, an officer of Three Gorges Hydropower Generation Plant, a manager of general manager office and a manager of the marketing department of China Yangtze Power Co., Ltd.. He served as the officer of the marketing department of China Three Gorges Corporation since April 2011. Mr. Zhao has experience as senior executives of large-scale hydropower listed companies and state-owned enterprises.

Independent non-executive Directors

Mr. Shea Chun Lok Quadrant (“Mr. Shea”), alias Martin, formerly known as Shea Chi Lap, Quadrant, aged 55, was appointed as an independent non-executive Director of the Company in April 2002. Mr. Shea is also the chairman of audit committee. Mr. Shea is currently an executive director, the chief financial officer and company secretary of Asia Allied Infrastructure Holdings Limited (Stock Code: 711), a company listed on the main board of the Stock Exchange. He is also an independent non-executive director of Hi-Level Technology Holdings Limited (Stock Code: 8113), a company listed on GEM of the Stock Exchange. Mr. Shea graduated from Monash University of Australia with a bachelor’s degree in Business and later completed a postgraduate program of Public Finance (Taxation) and obtained a master’s degree in Economics from Jinan University, China and a master of Laws degree from Renmin University of China. He is also a fellow member of CPA Australia, a member of Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong, The Chartered Institute of Management Accountants of the United Kingdom and Institute of Singapore Chartered Accountants and a Chartered Global Management Accountant. Mr. Shea is a Chartered Tax Adviser of Hong Kong and has obtained a Certificate of Pass in Practice Training Examination for Hong Kong Certified Tax Advisers Serving in Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Qianhai, Shenzhen jointly issued by Shenzhen Municipal Office of the State Administration of Taxation and Shenzhen Local Taxation Bureau. Mr. Shea has substantial experience in accounting and finance in listed companies and worked as a qualified accountant and company secretary in various companies listed on the main board of the Stock Exchange over the years.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors *(Continued)*

Mr. Zhang Gaobo (“Mr. Zhang”), aged 57, was appointed as an independent non-executive director of the Company in May 2008. Mr. Zhang is also a member of each of the audit committee and the nomination committee and chairman of the remuneration committee of the Company. Mr. Zhang obtained a bachelor’s degree in science from Henan University in 1985 and later graduated from Peking University with a master’s degree in Economics in 1988. From 1988 to 1991, Mr. Zhang worked in Hainan Provincial Government and PBOC Hainan Branch and as the chairman of Hainan Stock Exchange Centre. Since 1993, Mr. Zhang has been a founding partner and chief executive of Oriental Patron Financial Group and is responsible for its overall general management and business development. Mr. Zhang was an executive director of Wealthking Investments Limited (formerly known as OP Financial Limited) (Stock Code: 1140), a company listed on the main board of the Stock Exchange from February 2003 to December 2020 and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange from June 2007 to June 2017. Mr. Zhang has taken up the role to serve as the vice-president of Finance Center for South-South Cooperation Limited, a non-profit international organization in Special Consultative Status with ECOSOC of the United Nations, established for the promotion of South South Cooperation since April 2014. As from 2021, Mr. Zhang starts to play the role as founder & vice chairman of Micro Connect Group.

Mr. Guo Rui (“Mr. Guo”), aged 54, was appointed as an independent non-executive director of the Company in May 2008. Mr. Guo is also a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Guo is the managing director of 北京明銳恒豐管理諮詢有限公司 Beijing MingRui Hengfeng Management & Consulting Co. Ltd., an investment management organisation that invests in real estate, clean energy, healthcare and pharmaceuticals, biotechnology, financial institutes, mining and manufacturing sectors. Mr. Guo was a former senior consultant of Arthur Andersen LLC from 1999 to 2001. Mr. Guo holds a bachelor’s degree of computer science (or engineering) from Peking University and a master’s degree of computer engineering from Northwestern University, U.S.A..

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors *(Continued)*

Mr. Wang Kaijun, aged 61, was appointed as an independent non-executive director of the Company in August 2008. He holds a doctor's degree from the Environmental Technology Department of the Wageningen Agricultural University in the Netherlands. He was previously appointed as the chief engineer of Beijing Municipal Research Institute of Environmental Protection (北京市環境保護科學研究院). He is now working as a professor in School of Environment, Tsinghua University (清華大學環境學院), a member of Committee of Science and Technology in Ministry of Environmental Protection and the director of State Environment Protection Engineering Center for Technology Management and Evaluation. He has been engaged and experienced in the relevant research, development and industrialization of sewage pollution control technologies and the evaluation of policy-making over the years. He has unique and innovative opinions on the academic study and has made many achievements and demonstration cases on the hydrolysis aerobic process theory, aerobic and anaerobic reactor theory and design, development and application of sewage sludge treatment and disposal technologies, planning and management of state environment protection administration system. He also developed the research fields on municipal sewage hydrolysis-aerobic treatment process, high performance anaerobic reactors, sewage sludge treatment and disposal, livestock manure treatment and rural environmental protection in mainland China. He is currently a non-executive director of BECE Legend Group Co., Ltd. (Stock Code: 000803) and an independent non-executive director of Beijing OriginWater Technology Co., Ltd. (Stock Code: 300070). Both BECE Legend Group Co., Ltd and Beijing OriginWater Technology Co., Ltd. are listed on Shenzhen Stock Exchange.

Mr. Chau On Ta Yuen ("Mr. Chau"), aged 74, was appointed as an independent non-executive director of the Company in April 2021. Mr. Chau graduated from Xiamen University with a bachelor's degree in Chinese language and literature in 1968. Mr. Chau is currently an executive director and the chairman of the board of directors of ELL Environmental Holdings Limited (Stock Code: 1395), a company listed on main board of the Stock Exchange. Mr. Chau is also an independent non-executive director of Good Resources Holdings Limited (Stock Code: 109), Redco Properties Group Limited (Stock Code: 1622), Come Sure Group (Holdings) Limited (Stock Code: 794) and Million Hope Industries Holdings Limited (Stock Code: 1897), the shares of all of which are listed on the main board of the Stock Exchange. From 23 June 2015 to 1 December 2019, he was a non-executive director and the honorary chairman of the board of directors of China Ocean Industry Group Limited (Stock Code: 651), a company listed on main board of the Stock Exchange. From 19 September 2017 to 12 April 2021, he was an independent non-executive director of Hang Pin Living Technology Company Limited (Stock Code: 1682), a company listed on main board of the Stock Exchange. Mr. Chau awarded the Bronze Bauhinia Star (BBS) and the Silver Bauhinia Star (SBS) by the government of Hong Kong Special Administrative Region in 2010 and 2016 respectively. He is currently a Standing Committee Member of the Thirteenth National Committee of the Chinese People's Political Consultative Conference, and the Twelfth honorary consultant of the Hong Kong Federation of Fujian Association.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

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

RESULTS AND FINAL DIVIDEND

The Group’s profit for the year ended 31 December 2021 and the Group’s financial position at that date are set out in the consolidated financial statements on pages 98 to 258. An interim dividend of HK9.0 cents per ordinary share of the Company was paid on 19 October 2021. The Board recommended to pay final dividend of HK6.7 cents per ordinary share of the Company to shareholders of the Company for their continuous supports to the Company. This recommendation is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. The final dividend will be paid on or around Thursday, 30 June 2022.

CLOSURES OF REGISTER OF MEMBERS

For Annual General Meeting

The register of members will be closed from Thursday, 2 June 2022 to Wednesday, 8 June 2022 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Wednesday, 8 June 2022, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 1 June 2022.

For Entitlement to Proposed Final Dividend

The register of members will be closed from Wednesday, 15 June 2022 to Friday, 17 June 2022 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 14 June 2022. Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the proposed final dividend will be paid on or around Thursday, 30 June 2022.

REPORT OF THE DIRECTORS

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the chairman's statement on pages 4 to 9 of this annual report. Description of possible risks and uncertainties that the Group may be facing, can be found in the chairman's statement on pages 4 and 5. The financial risk management objectives and policies of the Group can be found in note 53 to the financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided on pages 10 to 32 of the Group's management discussion and analysis. In addition, discussions on the Group's environmental policies, relationship with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the chairman's statement on pages 5 to 9 and the corporate governance report on pages 33 to 49 of this annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual reports of the Company for the financial years ended 31 December 2021, 2020, 2019, 2018, 2017 is set out on pages 259 to 260. This summary does not form part of the audited financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group together accounted for 4% of the Group's revenue and aggregate purchases attributable to the Group's five largest suppliers accounted for 16% of the Group's total purchases for the year. Sales to the largest customer accounted for 1% of the Group's revenue and purchases from the largest supplier accounted for 6% of the Group's purchases.

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

SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Details of the Company's principal subsidiaries, joint ventures and associates at 31 December 2021 are set out in notes 1, 20 and 21 to the financial statements, respectively.

SHARE CAPITAL AND SHARE ISSUED

Details of movements in the share capital of the Company during the year, together with the reasons therefor, are set out in note 30 to the financial statements. Ordinary shares of the Company were issued during the year on exercises of share options of the Company.

REPORT OF THE DIRECTORS

DEBENTURE ISSUED

As at 31 December 2021, the outstanding principal amounts of corporate notes guaranteed by the Company and issued by a subsidiary of the Company was RMB2,000,000,000, with maturity date in November 2022 and fixed interest rates at 6.15% per annum, respectively.

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

As at 31 December 2021, the outstanding principal amounts of bonds guaranteed by the Company and issued by a wholly-owned subsidiary of the Company was US\$500,000,000, with maturity date in May 2023 and fixed interest rate at 4.95% per annum.

As at 31 December 2021, the outstanding principal amounts of medium-term notes issued by the Company was RMB1,000,000,000, with maturity date in May 2025 and interest rate at 5.1% per annum. Two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of medium-term notes and the notes holders shall be entitled to sell back the notes to the Company.

As at 31 December 2021, the outstanding principal amounts of medium-term notes issued by the Company was RMB2,000,000,000, with maturity date in July 2025 and interest rate at 4.72% per annum. Two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of medium-term notes and the notes holders shall be entitled to sell back the notes to the Company.

As at 31 December 2021, the outstanding principal amounts of medium-term notes issued by the Company was RMB2,000,000,000, with maturity dates in January 2026 and January 2029 and interest rates at 3.95% and 4.49% per annum, respectively. Two years prior to the maturity of the medium-term notes due in 2026, the Company shall be entitled to adjust the coupon rate of such medium-term notes and the notes holders shall be entitled to sell back such notes to the Company.

As at 31 December 2021, the outstanding principal amounts of medium-term notes issued by a wholly-owned subsidiary of the Company was RMB2,000,000,000, with maturity dates in March 2028 and March 2030 and interest rates at 3.43% and 3.98% per annum, respectively. Three years prior to the maturity of the medium-term notes due in 2028, the wholly-owned subsidiary of the Company shall be entitled to adjust the coupon rate of such medium-term notes and the notes holders shall be entitled to sell back such notes to the wholly-owned subsidiary of Company.

REPORT OF THE DIRECTORS

DEBENTURE ISSUED *(Continued)*

As at 31 December 2021, the outstanding principal amounts of extendable notes issued by the Company was RMB1,000,000,000 with fixed interest rate of 4.00% per annum to be payable for the first five years. After the first five years, the Company shall have a right to adjust the coupon rate for a cycle of every five years, unless and until the wholly-owned subsidiary of the Company chooses to repay the outstanding principal amount with accrued interests in full. The note holders shall not be entitled to sell back the notes to the wholly-owned subsidiary of the Company.

As at 31 December 2021, the outstanding principal amounts of medium-term notes issued by the Company was RMB1,500,000,000, with maturity date in April 2029 and interest rate at 3.98% per annum. Three years prior to the maturity, the Company shall be entitled to adjust the coupon rate of medium-term notes and the notes holders shall be entitled to sell back the notes to the Company.

As at 31 December 2021, the outstanding principal amounts of bonds issued by the Company was RMB1,000,000,000, with maturity date in July 2026 and interest rate at 3.27% per annum. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company.

As at 31 December 2021, the outstanding principal amounts of bonds issued by the Company was RMB1,000,000,000, with maturity date in July 2026 and interest rate at 3.64% per annum.

As at 31 December 2021, the outstanding principal amounts of extendable bonds issued by a wholly-owned subsidiary of the Company was RMB1,000,000,000 with fixed interest rate of 3.58% per annum to be payable for the first three years. After the first three years, the wholly-owned subsidiary of the Company shall have a right to adjust the coupon rate for a cycle of every three years, unless and until the wholly-owned subsidiary of the Company chooses to repay the outstanding principal amount with accrued interests in full. The note holders shall not be entitled to sell back the notes to the wholly-owned subsidiary of the Company.

As at 31 December 2021, the outstanding principal amounts of extendable bonds issued by a wholly-owned subsidiary of the Company was RMB1,500,000,000 with fixed interest rate of 3.79% per annum to be payable for the first three years. After the first three years, the wholly-owned subsidiary of the Company shall have a right to adjust the coupon rate for a cycle of every three years, unless and until the wholly-owned subsidiary of the Company chooses to repay the outstanding principal amount with accrued interests in full. The note holders shall not be entitled to sell back the notes to the wholly-owned subsidiary of the Company.

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

The above bonds and notes are included in notes 34, 36 and 37 to the financial statements.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2021, the Company's reserves available for distribution to shareholders of the Company amounted to HK\$6,878,815,000.

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

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

DIRECTORS

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

Executive Directors

Mr. Li Yongcheng (*Chairman*)

Mr. Jiang Xinhao

Mr. Zhou Min (*Chief Executive Officer*)

Mr. Li Haifeng

Mr. Zhang Tiefu

Mr. Ke Jian

Ms. Sha Ning

Mr. Tung Woon Cheung Eric

Mr. Li Li

Non-executive Directors

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

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

Independent Non-executive Directors

Mr. Shea Chun Lok Quadrant

Mr. Zhang Gaobo

Mr. Guo Rui

Mr. Wang Kaijun

Mr. Chau On Ta Yuen (*appointed on 23 April 2021*)

Dr. Lee Man Chun Raymond (*resigned on 23 April 2021*)

REPORT OF THE DIRECTORS

DIRECTORS *(Continued)*

Mr. Wang Dianchang was appointed as a non-executive director of the Company on 15 March 2022. In accordance with bye-law 91 of the Bye-laws of the Company (“Bye-laws”), Mr. Wang Dianchang shall hold office until the following general meeting (i.e.forthcoming annual general meeting) and being eligible, offers himself for re-election.

In accordance with bye-law 99(B) of the Bye-laws, Mr. Jiang Xinhao, Mr. Zhou Min, Mr. Li Li, Mr. Zhang Gaobo and Mr. Wang Kaijun shall retire by rotation from office as Directors at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

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

BOARD CHANGES

Since the date of the interim report 2021 of the Company and up to date of this annual report, there is a change to the Board effective from 15 March 2022 as follows:

- (1) Mr. Wang Dianchang was appointed as a non-executive director of the Company.
- (2) Mr. Zhao Feng resigned as a non-executive director of the Company.

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

Change in information of Director since the date of the interim report 2021 of the Company and up to the date of this annual report, which is required to be disclosed pursuant to Rule 13.51(B) of the Listing Rules, is set out below:

As from 2021, Mr. Zhang Gaobo starts to play the role as founder and vice chairman of Micro Connect Group.

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

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

REPORT OF THE DIRECTORS

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the “Directors and Senior Management” of the Company are set out on pages 50 to 55 of this annual report.

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

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

DIRECTORS’ SERVICE CONTRACTS

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

REPORT OF THE DIRECTORS

DIRECTORS' REMUNERATION

The Directors' remunerations fees are subject to the approval from the shareholders of the Company at general meetings. Upon the approval from shareholders of the Company, Directors' remuneration are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee of the Company. Further details of the Company's Directors' remuneration are set out on pages 163 to 165 of this annual report.

Further details of summary of work done during the year for the Company's remuneration committee are set out in the corporate governance report on pages 42 and 43 of this annual report.

DISCLOSURE OF INTERESTS

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

As at 31 December 2021, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the "Model Code"), were as follows:

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

Name of Directors	Number of ordinary shares				Total	Approximate percentage of the Company's issued share capital (Note 2)
	Personal interests	Family interests	Corporate interests	Other interests		
Mr. Zhou Min	56,400,000	–	310,790,878 (Note 1)	–	367,190,878	3.6227%
Mr. Li Haifeng	20,604,200	–	–	–	20,604,200	0.2033%
Mr. Zhang Tiefu	421,832	–	–	–	421,832	0.0042%
Mr. Tung Woon Cheung Eric	285,210	–	–	–	285,210	0.0028%
Mr. Li Li	1,145,088	–	–	–	1,145,088	0.0113%

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS *(Continued)*

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

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

Associated Corporation	Directors	Number of ordinary shares				Total	Approximate percentage of the associated corporation's issued share capital
		Personal interests	Family interests	Corporate interests	Other interests		
Beijing Enterprises Clean Energy Group Limited ("BECEG")	Mr. Zhou Min	--	-	1,824,086,800 <i>(Note 3)</i>	-	1,824,086,800	2.8714% <i>(Note 5)</i>
	Mr. Li Haifeng	-	-	1,127,175,080 <i>(Note 4)</i>	-	1,127,175,080	1.7744% <i>(Note 5)</i>
Beijing Enterprises Urban Resources Group Limited ("BEURG")	Mr. Zhou Min	--	-	104,820,000 <i>(Note 6)</i>	-	104,820,000	2.9117% <i>(Note 8)</i>
	Mr. Li Haifeng	1,840,000	-	48,960,000 <i>(Note 7)</i>	-	50,800,000	1.4111% <i>(Note 8)</i>

Notes:

- 307,676,110 ordinary shares and 3,114,768 ordinary shares, both of HK\$0.10 each in the share capital of the Company ("Shares"), as at 31 December 2021 are held by Tenson Investment Limited and Star Colour Investments Limited, respectively, both of which are wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
- The percentage represented the number of Shares over the total issued Shares of the Company as at 31 December 2021 of 10,135,821,871 Shares.
- This represented the number of ordinary shares of BECEG of HK\$0.001 each ("BECEG Ordinary Shares") as at 31 December 2021 held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
- This represented the number of BECEG Ordinary Shares as at 31 December 2021 held by Maolin Investments Limited which is wholly and beneficially owned by Mr. Li Haifeng, an executive director of the Company.
- The percentage represented the number of BECEG Ordinary Shares over the total issued shares of BECEG as at 31 December 2021 of 63,525,397,057 shares.
- This represented the number of ordinary shares of BEURG of HK\$0.1 each ("BEURG Ordinary Shares") as at 31 December 2021 held by Star Colour Investments Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
- This represented the number of BEURG Ordinary Shares as at 31 December 2021 held by Maolin Investments Limited which is wholly and beneficially owned by Mr. Li Haifeng, an executive director of the Company.
- The percentage represented the number of BEURG Ordinary Shares over the total issued shares of BEURG as at 31 December 2021 of 3,600,000,000 shares.

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS *(Continued)*

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

(iii) Long positions in share options of the Company

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

(iv) Long positions in awarded shares of the Company

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

Save as disclosed above, as at 31 December 2021, there were no interest or short position of the directors or chief executives of the Company in the Shares, the underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), that are required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code or the SFO.

SHARE OPTION SCHEME

On 28 June 2011, a new share option scheme (the “Scheme”) was adopted by the shareholders at the special general meeting of the Company and terminated the old share option scheme adopted by the Company on 20 March 2002. The purpose of the Scheme was to provide incentives to the eligible participants to use their best endeavours in assisting the growth and the development of the Group and continue to attract human resources that were valuable to the growth and the development of the Group as a whole. The Scheme became effective on 28 June 2011 and was effected for 10 years from that date. The Scheme was expired on 27 June 2021. No further share options would be granted under the Scheme but in respect of all share options which remain exercisable on such date, the provisions of the Scheme shall remain in full force and effect.

The total number of shares available for issue under the Scheme was 142,500,000 Shares in respect of all outstanding share options which remain exercisable, representing approximately 1.41% of the ordinary Shares of the Company in issue as at 31 December 2021.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

During the year ended 31 December 2021, no option was granted under the Scheme, the movements in the share options of the Company during the year are set out as follows:

Category of Participants/ Name	Number of Share Options					As at 31 December 2021	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing price per Share HK\$
	As at 1 January 2021	Granted	Exercised	Lapsed	Cancelled					
Directors										
Zhou Min	11,200,000	-	(11,200,000)	-	-	-	24/04/2013	24/4/2014 – 23/4/2023	2.244	3.29 <i>(Note 1)</i>
	11,200,000	-	(11,200,000)	-	-	-	24/04/2013	24/4/2015 – 23/4/2023	2.244	3.29 <i>(Note 1)</i>
	11,200,000	-	(11,200,000)	-	-	-	24/04/2013	24/4/2016 – 23/4/2023	2.244	3.29 <i>(Note 1)</i>
	11,200,000	-	(11,200,000)	-	-	-	24/04/2013	24/4/2017 – 23/4/2023	2.244	3.29 <i>(Note 1)</i>
	11,200,000	-	(11,200,000)	-	-	-	24/04/2013	24/4/2018 – 23/4/2023	2.244	3.29 <i>(Note 1)</i>
	56,000,000	-	(56,000,000)	-	-	-				
Li Haifeng	2,600,000	-	(2,600,000)	-	-	-	24/04/2013	24/4/2015 – 23/4/2023	2.244	3.29 <i>(Note 1)</i>
	5,800,000	-	(5,800,000)	-	-	-	24/04/2013	24/4/2016 – 23/4/2023	2.244	3.29 <i>(Note 1)</i>
	5,800,000	-	(5,800,000)	-	-	-	24/04/2013	24/4/2017 – 23/4/2023	2.244	3.29 <i>(Note 1)</i>
	5,800,000	-	(5,800,000)	-	-	-	24/04/2013	24/4/2018 – 23/4/2023	2.244	3.29 <i>(Note 1)</i>
	20,000,000	-	(20,000,000)	-	-	-				
Tung Woon Cheung Eric	1,800,000	-	-	-	-	1,800,000	24/04/2013	24/4/2014 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/04/2013	24/4/2015 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/04/2013	24/4/2016 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/04/2013	24/4/2017 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/04/2013	24/4/2018 – 23/4/2023	2.244	-
	9,000,000	-	-	-	-	9,000,000				

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

Category of Participants/ Name	Number of Share Options					As at 31 December 2021	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing price per Share HK\$
	As at 1 January 2021	Granted	Exercised	Lapsed	Cancelled					
Li Li	1,180,000	-	-	-	-	1,180,000	24/04/2013	24/4/2015 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/04/2013	24/4/2016 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/04/2013	24/4/2017 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/04/2013	24/4/2018 – 23/4/2023	2.244	-
	12,700,000	-	-	-	-	12,700,000				
Zhang Gaobo	400,000	-	-	-	-	400,000	24/04/2013	24/4/2017 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/04/2013	24/4/2018 – 23/4/2023	2.244	-
	800,000	-	-	-	-	800,000				
Guo Rui	400,000	-	-	-	-	400,000	24/04/2013	24/4/2018 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000				
Wang Kaijun	400,000	-	-	-	-	400,000	24/04/2013	24/4/2014 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/04/2013	24/4/2015 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/04/2013	24/4/2016 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/04/2013	24/4/2017 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/04/2013	24/4/2018 – 23/4/2023	2.244	-
	2,000,000	-	-	-	-	2,000,000				
Sub-total	100,900,000	-	(76,000,000)	-	-	24,900,000				

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

Category of Participants/ Name	Number of Share Options					As at 31 December 2021	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing price per Share HK\$
	As at 1 January 2021	Granted	Exercised	Lapsed	Cancelled					
Eligible Participants including Employees										
In aggregate	7,796,000 <i>(Note 3)</i>	-	(200,000)	-	-	7,596,000	24/04/2013	24/4/2014 – 23/4/2023	2.244	3.040 <i>(Note 1)</i>
	18,904,000 <i>(Note 3)</i>	-	(200,000)	-	-	18,704,000	24/04/2013	24/4/2015 – 23/4/2023	2.244	3.040 <i>(Note 1)</i>
	28,166,000 <i>(Note 3)</i>	-	(7,466,000)	-	-	20,700,000	24/04/2013	24/4/2016 – 23/4/2023	2.244	3.059 <i>(Note 2)</i>
	48,560,000 <i>(Note 3)</i>	-	(15,180,000)	-	-	33,380,000	24/04/2013	24/4/2017 – 23/4/2023	2.244	3.325 <i>(Note 2)</i>
	50,400,000 <i>(Note 3)</i>	-	(15,180,000)	-	-	35,220,000	24/04/2013	24/4/2018 – 23/4/2023	2.244	3.071 <i>(Note 2)</i>
	2,000,000	-	-	-	-	2,000,000	28/03/2014	1/6/2016 – 27/3/2024	5.180	-
Sub-total	155,826,000	-	(38,226,000)	-	-	117,600,000				
Total	256,726,000	-	(114,226,000)	-	-	142,500,000				

Notes:

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

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Scheme during the year ended 31 December 2021.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

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

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

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

As at 31 December 2021, the Company had 142,500,000 share options outstanding under the Scheme. Should they be fully exercised, the Company will receive approximately HK\$325,642,000 (before issue expenses). The fair value of these unexercised options measured in accordance with the Group’s accounting policy (note 3.4 to the financial statements) amounted to HK\$126,315,000.

SHARE AWARD SCHEME

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

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

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

REPORT OF THE DIRECTORS

SHARE AWARD SCHEME *(Continued)*

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

During the year, a total of 12,471,409 awarded Shares was awarded under the Share Award Scheme, representing approximately 0.12% of the issued share capital of the Company as at the date of grant of awarded Shares on 1 November 2021.

During the year ended 31 December 2021, 12,471,409 awarded shares was granted on 1 November 2021 under the Share Award Scheme, the movements in the awarded shares of the Company during the year are set out as follows:

Category of Participants/Name	Number of awarded Shares				As at 31 December 2021
	As at 1 January 2021	Granted	Vested	Lapsed	
Directors					
Li Haifeng	–	253,656	(253,656)	–	–
Zhang Tiefu	–	197,288	(197,288)	–	–
Tung Woon Cheung Eric	–	140,920	(140,920)	–	–
Sub-total	–	591,864	(591,864)	–	–
Eligible Participants					
In aggregate	–	11,879,545	(11,738,625)	–	140,920
Total	–	12,471,409	(12,330,489)	–	140,920

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

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2021, so far as was known to the directors or chief executives of the Company, the following persons (not being a director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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

Name	Notes	Number of ordinary shares held, capacity and nature of interest			Total	Percentage of the Company's total number of issued shares (Note 8)
		Beneficially owned	Through controlled corporation			
Beijing Enterprises Environmental Construction Limited ("BE Environmental")		4,121,607,070	–	4,121,607,070	40.66%	
Beijing Enterprises Holdings Limited ("BEHL")	(1)	–	4,121,607,070	4,121,607,070	40.66%	
Modern Orient Limited ("MOL")	(2)	–	4,121,607,070	4,121,607,070	40.66%	
Beijing Enterprises Investments Limited ("BEIL")	(2)	–	4,121,607,070	4,121,607,070	40.66%	
Beijing Enterprises Group (BVI) Company Limited ("BE Group (BVI)")	(3)	–	4,121,607,070	4,121,607,070	40.66%	
Beijing Enterprises Group Company Limited ("BEGCL")	(4)	–	4,153,717,000	4,153,717,000	40.98%	
Three Gorges Capital Holdings (HK) Co., Limited ("TGC HK")		515,952,000	–	515,952,000	5.09%	

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

(Continued)

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

Name	Notes	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's total number of issued shares (Note 8)
		Beneficially owned	Through controlled corporation	Total	
Three Gorges Capital Holding Co., Ltd ("TGC")	(5)	–	515,952,000	515,952,000	5.09%
Yangtze Ecology and Environment (HK) Investment Limited ("YEE HK")		872,121,436	–	872,121,436	8.60%
Yangtze Ecology and Environment Co., Ltd. ("YEE")	(6)	–	872,121,436	872,121,436	8.60%
China Three Gorges Corporation ("CTG")	(7)	–	1,588,495,436	1,588,495,436	15.67%

Notes:

- (1) The interest disclosed comprises the Shares owned by BE Environmental. BE Environmental beneficially holds 4,121,607,070 Shares (representing approximately 40.66% in the share capital of the Company). BE Environmental is a wholly-owned subsidiary of BEHL. Accordingly, BEHL is deemed to be interested in the Shares owned by BE Environmental.
- (2) The interest disclosed comprises the Shares owned by BEHL (through BE Environmental). MOL and BEIL are the immediate shareholders of BEHL and collectively hold approximately 20.90% of the issued share capital of BEHL. Accordingly, each of MOL and BEIL is deemed to be interested in the Shares owned by BEHL (through BE Environmental).
- (3) The interest disclosed comprises the Shares owned by BEIL and MOL (through BEHL and BE Environmental). BEHL is held directly as to approximately 41.06% by BE Group (BVI). MOL is a wholly owned subsidiary of BEIL, which is in turn directly held as to approximately 72.72% by BE Group (BVI). Accordingly, BE Group (BVI) is deemed to be interested in the Shares indirectly owned by BEIL and MOL (through BEHL and BE Environmental).

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

(Continued)

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

Notes: (Continued)

- (4) The interest disclosed comprises the Shares owned by BE Group (BVI) as detailed in note (3) above and 32,110,000 Shares owned by Beijing Holdings Limited ("BHL"). BE Group (BVI) and BHL are wholly-owned subsidiaries of the BEGCL. Accordingly, BEGCL is deemed to be interested in the Shares indirectly owned by BE Group (BVI) and BHL.
- (5) The interest disclosed comprises the Shares owned by TGC HK which beneficially holds 515,952,000 Shares (representing approximately 5.09% in the share capital of the Company). TGC HK is a wholly-owned subsidiary of TGC. Accordingly, TGC is deemed to be interested in the Shares owned by TGC HK.
- (6) The interest disclosed comprises the Shares owned by YEE HK which beneficially holds 872,121,436 Shares (representing approximately 8.60% in the share capital of the Company). YEE HK is a wholly-owned subsidiary of YEE. Accordingly, YEE is deemed to be interested in the Shares owned by YEE HK.
- (7) The interest disclosed comprises (i) 515,952,000 Shares owned by TGC HK, a direct wholly-owned subsidiary of TGC which is in turn directly held as to 70% by CTG and 10% by China Yangtze Power Co., Ltd. ("CYP"). CYP is directly held as to 55.02% by CTG and 3.87% by China Three Gorges Construction Engineering Corporation, a direct wholly-owned subsidiary of CTG; (ii) 200,422,000 Shares owned by China Yangtze Power International (Hongkong) Co., Ltd., a direct wholly-owned subsidiary of CYP; and (iii) 872,121,436 Shares owned by YEE HK, a direct wholly-owned subsidiary of YEE, which is in turn directly held as to 100% by CTG.
- (8) The percentage represented the number of Shares over the total issued Shares of the Company as at 31 December 2021 of 10,135,821,871 Shares.

Save as disclosed above, as at 31 December 2021, the Company had not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

Redemption of RMB700,000,000 3.25% Bonds Due 2024

For the year ended 31 December 2021, the Group redeemed and cancelled the three years prior to the maturity date the amount of RMB700,000,000 3.25% bonds due 2024 issued by the Company at the redemption amount of RMB700,000,000 plus accrued interest which was paid.

Redemption of RMB2,200,000,000 3.33% Bonds Due 2023

For the year ended 31 December 2021, the Group redeemed and cancelled the two years prior to the maturity date the amount of RMB2,200,000,000 3.33% bonds due 2023 issued by the Company at the redemption amount of RMB2,200,000,000 plus accrued interest which was paid.

REPORT OF THE DIRECTORS

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES *(Continued)*

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

For the year ended 31 December 2021, the Group redeemed and cancelled on the maturity date the remaining principal amount of RMB2,000,000,000 3.6% bonds due 2021 issued by a wholly-owned subsidiary of the Company and guaranteed by the Company at the redemption amount of RMB253,401,000 plus accrued interest which was paid.

Redemption of RMB2,800,000,000 3.68% extendable Bonds

For the year ended 31 December 2021, the Group redeemed and cancelled the amount of RMB2,800,000,000 3.68% extendable bonds issued by a wholly-owned subsidiary of the Company and guaranteed by the Company at the redemption amount of RMB2,800,000,000 plus accrued interest which was paid.

Subsequently to the redemption of the respective bonds as aforesaid, they were cancelled and delisted from the official list of Shanghai Stock Exchange.

Save as the above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2021.

EMOLUMENT POLICY

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

The Group entered into certain activities with parties regarded as “Related Parties” under applicable accounting principles. These mainly relate to the activities in the ordinary course of the Group’s business and were negotiated on normal commercial terms and an arm’s length basis. Certain transactions set out in note 51 to the financial statements were connected transactions as defined under the Listing Rules and were exempt and complied with the requirements of Chapter 14A of the Listing Rules. The disclosures required by Rule 14A.71 of the Listing Rules during the year are provided in the paragraph headed “Connected Transactions” as identified below.

CONNECTED TRANSACTIONS

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

(A) Connected Transactions

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

On 31 December 2021, the Company entered into the capital increase agreement, pursuant to which the Company agreed to subscribe by way of cash for the registered capital of Beijing Enterprises Group Finance Co., Ltd.* (北京控股集團財務有限公司) (“BG Finance”). The Company would pay to BG Finance an amount of RMB150,525,000, of which approximately RMB112,124,000 would be injected into BG Finance as registered capital and approximately RMB38,401,000 would be its capital reserve, being the consideration of the capital subscription. Following the capital subscription, the Group would continue to hold 6.69% equity interest of the enlarged registered capital of BG Finance.

On 31 December 2021, each of BEGCL and BEHL is a connected person of the Company under the Listing Rules by virtue of each being a substantial shareholder of the Company. As each of BEGCL and BEHL beneficially owns not less than 30% equity interest in BG Finance, BG Finance is an associate of each of BEGCL and BEHL, therefore, the entering into of the capital increase agreement constituted connected transaction of the Company which was subject to the reporting and announcement requirements but was exempt from the circular and independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

Further details are set out in the announcement of the Company dated 31 December 2021.

* For identification purpose only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(A) Connected Transactions *(Continued)*

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

(i) Formation of Joint Ventures

Yuanjiang City

On 8 January 2021, Yangtze Ecology and Environment Co., Ltd.* (長江生態環保集團有限公司) (“YEE”), Hunan Yuanjiang Qionghu Investment Construction Development Co., Ltd.* (湖南沅江瓊湖投資建設開發有限公司) (“Qionghu Investment”), China Railway No. 5 Engineering Group Co., Ltd.* (中鐵五局集團有限公司) (“CR5 Engineering”), China Construction Fifth Engineering Division Corporation Ltd.* (中國建築第五工程局有限公司) (“CC5 Engineering”), Changsha Three Gorges Beijing Enterprises Water Group Co., Ltd.* (長沙三峽北控水務有限公司) (“CTGBE”, a non-wholly owned subsidiary of the Company), and PowerChina Zhongnan Engineering Corporation Ltd.* (中國電建集團中南勘測設計研究院有限公司) (“PowerChina Zhongnan Engineering”) entered into the shareholder agreement in relation to establishment of the joint venture for the purpose of investment, financing, survey and design, construction, operation, management, maintenance and transfer of water environment comprehensive renovation phase 1 engineering PPP project in Yuanjiang central city of Hunan province, the PRC.

Pursuant to the shareholder agreement, the registered capital of the joint venture would be RMB400,000,000. CTGBE agreed to inject RMB4,000,000 in cash. The joint venture would be owned as to 1%, 72%, 10%, 8%, 8% and 1% equity interests by CTGBE, YEE, Qionghu Investment, CR5 Engineering, CC5 Engineering and PowerChina Zhongnan Engineering respectively.

Further details are set out in the announcement of the Company dated 8 January 2021.

* For identification purpose only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(A) Connected Transactions *(Continued)*

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

(i) Formation of Joint Ventures *(Continued)*

Yueyang City

On 25 January 2021, YEE, Yueyang Communications Construction Investment Group Co. Ltd.* (岳陽市交通建設投資集團有限公司) (“Yueyang Communications”), Sinohydro Bureau 8 Co., Ltd.* (中國水利水電第八工程局有限公司) (“Sinohydro Bureau 8”), China Construction Second Engineering Bureau Ltd.* (中國建築第二工程局有限公司) (“CC2 Bureau”), China National Chemical Engineering Fourth Construction Co., Ltd.* (中國化學工程第四建設有限公司) (“CNCE4”), China Energy Engineering Group Southern Construction and Investment Co. Ltd.* (中國能源建設集團南方建設投資有限公司) (“China Energy”), CTGBE, North China Municipal Engineering Design & Research Institute Co., Ltd.* (中國市政工程華北設計研究總院有限公司) (“North China Design”), Central & Southern China Municipal Engineering Design and Research Institute Co., Ltd.* (中國市政工程中南設計研究總院有限公司) (“Central Southern China Design”) and Changsha Three Gorges Luzhou Technological Development Co., Ltd.* (長江三峽綠洲技術發展有限公司) (“CTGLT”) entered into the shareholder agreement in relation to establishment of the joint venture for the purpose of investment, financing, construction, operation, management, maintenance and transfer of sewage water system comprehensive renovation engineering PPP Project Phase II in the center district of Yueyang city of Hunan province, the PRC.

Pursuant to the shareholder agreement, the registered capital of the joint venture would be RMB1,445,446,900. CTGBE agreed to inject RMB14,454,470 in cash. The joint venture would be owned as to 1%, 67.9%, 10%, 5%, 5%, 5%, 5%, 0.5%, 0.5% and 0.1% equity interests by CTGBE, YEE, Yueyang Communications, Sinohydro Bureau 8, CC2 Bureau, CNCE 4, China Energy, North China Design, Central Southern China Design and CTGLT respectively.

Further details are set out in the announcement of the Company dated 25 January 2021.

* For identification purpose only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(A) Connected Transactions *(Continued)*

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

(i) Formation of Joint Ventures *(Continued)*

Shishou City

On 8 February 2021, YEE, Shishou City Boya Urban Construction Investment Co. Ltd.* (石首市博雅城市建設投資有限公司) (“Shishou Boya”), CCCC Second Harbour Engineering Company Limited* (中交第二航務工程局有限公司) (“CCCC Second Harbour”), CTGBE, Changjiang Survey, Planning, Design and Research Co., Ltd.* (長江勘測規劃設計研究有限責任公司) (“CSPDR”) and China Water and Electric Development Co., Ltd.* (中國華水水電開發有限公司) (“CWED”) entered into the shareholder agreement in relation to establishment of Shishou City Three Gorges Phase I Water Environment Comprehensive Renovation Co., Ltd.* (石首市三峽一期水環境綜合治理有限責任公司) (“Shishou Joint Venture”) for the purpose of investment, financing, construction, operation, management, maintenance and transfer of water environment comprehensive renovation (Phase I Engineering) PPP Project in the center district of Shishou City of Hubei Province, the PRC.

Pursuant to the shareholder agreement, the registered capital of Shishou Joint Venture would be RMB100,000,000. CTGBE agreed to inject RMB1,000,000 in cash. Shishou Joint Venture would be owned as to 1%, 77%, 10%, 10%, 1% and 1% equity interests by CTGBE, YEE, Shishou Boya, CCCC Second Harbour, CSPDR and CWED respectively.

Further details are set out in the announcement of the Company dated 8 February 2021.

(ii) Disposal of Equity Interests in Joint Ventures

Shishou City

On 15 November 2021, CTGBE as vendor entered into the equity transfer agreement with YEE as purchaser, pursuant to which CTGBE conditionally agreed to transfer and YEE conditionally agreed to acquire the committed capital contribution to Shishou Joint Venture in the amount of RMB1,000,000, representing 1% equity interest in the Shishou Joint Venture, at nil consideration, with reference to the facts that (i) CTGBE had not made any actual capital contribution to Shishou Joint Venture and (ii) Shishou Joint Venture had not commenced operation.

Further details are set out in the announcement of the Company dated 15 November 2021.

* For identification purpose only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(A) Connected Transactions *(Continued)*

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

(ii) Disposal of Equity Interests in Joint Ventures *(Continued)*

Linxiang City

On 23 November 2021, CTGBE as vendor entered into the equity transfer agreement with YEE as purchaser, pursuant to which CTGBE conditionally agreed to transfer and YEE conditionally agreed to acquire the committed capital contribution to the Linxiang City Three Gorges Water Environment Comprehensive Renovation Co., Ltd.* (臨湘市三峽水環境綜合治理有限責任公司) (“Linxiang Joint Venture”) in the amount of RMB1,782,600, representing 1% equity interest in Linxiang Joint Venture, at nil consideration with reference to the facts that (i) CTGBE had not made any actual capital contribution to Linxiang Joint Venture and (ii) Linxiang Joint Venture had not commenced operation.

Further details are set out in the announcement of the Company dated 23 November 2021.

At the date of each agreement as aforesaid, CTG, a substantial shareholder of the Company, beneficially owned not less than 30% equity interest in YEE, CTGBE, CTGLT, CSPDR and CWED and therefore YEE, CTGBE, CTGLT, CSPDR and CWED were associates of CTG. Hence, YEE, CTGBE, CTGLT, CSPDR and CWED were connected persons of the Company and the entering into the above-mentioned agreements in items (i) and (ii) constituted connected transactions for the Company under Chapter 14A of the Listing Rules. As these transactions were related and to be completed within 12-month period, these transactions shall be aggregated and treated as if they were one transaction under Chapter 14A of the Listing Rules which were subject to the reporting and announcement requirements but were exempt from the circular and the independent shareholders' approval requirement.

* For identification purpose only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(A) Connected Transactions *(Continued)*

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

(i) Finance Lease Agreement with ABC Financial Leasing Co., Ltd.* (農銀金融租賃有限公司)

On 29 January 2021, Chifeng Beikong Water Purification Co., Ltd.* (赤峰北控水質淨化有限公司) (“Chifeng Beikong Water Purification”, a non-wholly owned subsidiary of the Company), as the lessee, entered into the finance lease agreement with ABC Financial Leasing Co., Ltd.* (農銀金融租賃有限公司) (“ABC Financial Leasing”) as lessor, pursuant to which Chifeng Beikong Water Purification agreed to transfer and change the registration of the ownership of facilities for phase I project of Hongmiaozi sewage treatment plant and facilities and equipment for phase II expansion project of Hongmiaozi sewage treatment plant in Chifeng City, the PRC under the name of ABC Financial Leasing for a term of tens years for a transfer consideration of RMB110,000,000, and ABC Financial Leasing then agreed to lease to Chifeng Beikong Water Purification with the lease principal of RMB110,000,000, the lease interest of approximately RMB29,462,722 and the total rent (lease principal plus lease interest) of approximately RMB139,462,722.

Further details are set out in the announcement of the Company dated 29 January 2021.

(ii) Loan Agreements with Agricultural Bank of China Limited

(1) On 5 February 2021, Chifeng Bei Kong Sanzuodian Water Supply Co., Ltd.* (赤峰北控三座店供水有限公司) (“Chifeng Bei Kong”, a non-wholly subsidiary of the Company), as borrower, entered into the loan agreement with Agricultural Bank of China Limited* (中國農業銀行股份有限公司) (“ABC”), Chifeng Songshan sub-branch (“Chifeng sub-branch”), as lender, pursuant to which ABC, Chifeng sub-branch agreed to grant the loan facility in a principal amount of RMB60.71 million to Chifeng Bei Kong for a term of twelve years from the date of drawdown and interest payable was calculated based on over 5-year loan prime rate published by the National Interbank Funding Centre on the date preceding the drawdown date plus 0.25%.

* For identification purpose only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(A) Connected Transactions *(Continued)*

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

(ii) Loan Agreements with Agricultural Bank of China Limited *(Continued)*

(1) *(Continued)*

The loan facility would be secured by the pledge of financial accounts receivable from Chifeng Bei Kong and the guarantee would be given by BEWG Environmental Group Co., Ltd.* (北控中成環保集團有限公司) (“BEWG Environmental”, a non-wholly owned subsidiary of the Company) with respect to the payment obligations of Chifeng Bei Kong under loan agreement in favour of ABC, Chifeng sub-branch.

Further details are set out in the announcement of the Company dated 5 February 2021.

- (2) On 24 March 2021, Chifeng Bei Kong, as borrower, entered into the loan agreement with ABC, Chifeng sub-branch, as lender, pursuant to which ABC, Chifeng sub-branch agreed to grant the loan facility in a principal amount of RMB25.38 million to Chifeng Bei Kong for a term of twelve years from the date of drawdown and interest payable was calculated based on a floating interest rate equal to the relevant loan prime rate for a period longer than five years announced by the National Interbank Funding Centre on the date immediately preceding the drawdown date plus 0.25%.

The loan facility would be secured by the pledge of financial accounts receivable from Chifeng Bei Kong and the guarantee would be given by BEWG Environmental with respect to the payment obligations of Chifeng Bei Kong under the loan agreement in favour of ABC, Chifeng sub-branch.

Further details are set out in the announcement of the Company dated 24 March 2021.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(A) Connected Transactions *(Continued)*

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

(ii) Loan Agreements with Agricultural Bank of China Limited *(Continued)*

- (3) On 27 July 2021, Chifeng Bei Kong, as borrower, entered into the loan agreement with ABC, Chifeng sub-branch, as lender, pursuant to which ABC, Chifeng sub-branch agreed to grant the loan facility in a principal amount of RMB4,180,000 to Chifeng Bei Kong for a term of twelve years from the date of drawdown and interest payable was calculated based on a floating interest rate equal to the relevant loan prime rate for a period longer than five years announced by the National Interbank Funding Centre on the date immediately preceding the drawdown date plus 0.25%.

The loan facility would be secured by the pledge of financial accounts receivable from Chifeng Bei Kong and the guarantee would be given by BEWG Environmental with respect to the payment obligations of Chifeng Bei Kong under the loan agreement in favour of ABC, Chifeng sub-branch.

Further details are set out in the announcement of the Company dated 27 July 2021.

- (4) On 25 August 2021, Linyi Bei Kong Beicheng Water Co., Ltd.* (臨沂北控北城水務有限公司) (“Linyi Bei Kong”, a non-wholly owned subsidiary of the Company), as borrower, entered into the loan agreement with ABC, Linyi Lanshan sub-branch (“Linyi sub-branch”), as lender, pursuant to which ABC, Linyi sub-branch agreed to grant the loan facility in a principal amount of RMB150,000,000 to Linyi Bei Kong for a term of fifteen years from the date of drawdown based on a floating interest rate equal to the relevant loan prime rate for a period longer than five years announced by the National Interbank Funding Centre on the date immediately preceding the drawdown date minus 0.6%.

The loan facility would be secured by the pledge of account receivables from Linyi Liuqing River No. 2 sewage treatment plant expansion and supporting PPP project and the guarantee would be given by Beijing Enterprises Water Group (China) Investment Limited* (北控水務(中國)投資有限公司), a wholly-owned subsidiary of the Company, in respect to the payment obligations of Linyi Bei Kong in favour of ABC, Linyi sub-branch.

Further details are set out in the announcement of the Company dated 25 August 2021.

* For identification purpose only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(A) Connected Transactions *(Continued)*

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

(ii) *Loan Agreements with Agricultural Bank of China Limited (Continued)*

At the date of each agreement as aforesaid, ABC Financial Asset Investment Co., Ltd* (農銀金融資產投資有限公司) (“ABC Financial”), was the substantial shareholders of various subsidiaries of the Company. As ABC beneficially owned 100% equity interest in ABC Financial and ABC Financial Leasing, ABC and ABC Financial Leasing were associates of ABC Financial. Hence, ABC and ABC Financial Leasing were connected persons of the Company and the entering into the above-mentioned agreements in items (i) and (ii) constituted connected transactions for the Company under Chapter 14A of the Listing Rules. As these transactions were related and to be completed within 12-month period, these transactions shall be aggregated and treated as if they were one transaction under Chapter 14A of the Listing Rules which were subject to the reporting and announcement requirements but were exempt from the circular and the independent shareholders’ approval requirement.

(B) Continuing Connected Transactions

(I) *2021 Deposit Services Master Agreement*

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

As the 2018 Deposit Services Master Agreement expired 31 December 2020, and in order to regulate such transactions that would continue to take place, after 31 December 2020, the Company and BG Finance entered into the 2021 deposit services master agreement (“2021 Deposit Services Master Agreement”) on 23 December 2020 whereby the Company and BG Finance would continue to carry out the transactions of similar natures from time to time under the 2021 Deposit Services Master Agreement for three years from 1 January 2021 to 31 December 2023, with the terms and conditions substantially the same as those under the 2018 Deposit Services Master Agreement. The cumulative daily outstanding deposits balance placed by the Group with BG Finance (including any interest accrued thereon) during the terms of the 2021 Deposit Services Master Agreement would not exceed HK\$1,520 million for each of the three years ending 31 December 2021, 2022 and 2023 (the “Annual Cap”). On 29 October 2021, the Company entered into the 2021 supplemental agreement with BG Finance, pursuant to which the Company and BG Finance agreed to revise the Annual Cap from HK\$1,520 million to RMB6,000 million for the remaining term of the 2021 Deposit Services Master Agreement subject to the approval of the independent shareholders of the Company. As approval was not obtained from the independent shareholders of the Company at the special general meeting held on 20 December 2021, the 2021 supplemental agreement was not effective and the Annual Cap remained unchanged as HK\$1,520 million.

* For identification purpose only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(B) Continuing Connected Transactions *(Continued)*

(1) 2021 Deposit Services Master Agreement *(Continued)*

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

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

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

On 23 December 2020, each of BEGCL and BEHL was a connected person of the Company under the Listing Rules by virtue of each being a substantial shareholder of the Company. As each of BEGCL and BEHL beneficially owned not less than 30% equity interest in BG Finance, BG Finance was an associate of each of BEGCL and BEHL, therefore, the entering into of the 2021 Deposit Services Master Agreement constituted continuing connected transactions of the Company which was subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The above continuing connected transaction was carried out within the Annual Cap, details of which are set out in note 51 to the financial statements.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(B) Continuing Connected Transactions *(Continued)*

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

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

ABC Group being one of the Group’s principal banking partners, the Group engaged ABC Group in respect of deposit services on a continuing and recurring basis. The maximum daily balance of deposit services (including accrued interests) of the Group with ABC Group would not exceed RMB3 billion for each of the three years ended 31 December 2020, 2021 and 2022 (the “ABC Group Annual Cap”). The provision of deposit services by ABC Group was essential to the Group in terms of facilitating the daily operating cash flows and securing stable and reliable financing support to the Group, therefore maintaining the financial health and assisting the business expansion of the Group in the coming years.

Pricing Principles

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

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

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

* For identification purpose only

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(B) Continuing Connected Transactions *(Continued)*

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

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

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

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

PERMITTED INDEMNITY PROVISION

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

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

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$ 2,537,000.

EQUITY-LINKED AGREEMENTS

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

REPORT OF THE DIRECTORS

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

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

Date of the Agreement(s)/ Issuance of Notes	Nature of the Agreement(s)/Notes	Aggregate amount (million)	Final Maturity	Specific performance obligations
8 November 2013	Note purchase agreement with an institutional investor	RMB2,000	November 2022	<i>Note 1</i>
18 December 2017	Term loan facility with a bank	HK\$4,000	December 2022	<i>Note 2</i>
24 April 2018	Subscription agreement for issuance of bonds	US\$500	May 2023	<i>Note 1</i>
25 May 2018	Issuance of medium-term notes	RMB1,000	May 2025 <i>Note 4</i>	<i>Note 1</i>
20 July 2018	Issuance of medium-term notes	RMB2,000	July 2025 <i>Note 4</i>	<i>Note 1</i>
14 December 2018	Term loan facilities with various banks	AU\$210	December 2023	<i>Note 3</i>
11 January 2019	Issuance of medium-term notes	RMB1,000	January 2026 <i>Note 4</i>	<i>Note 1</i>
11 January 2019	Issuance of medium-term notes	RMB1,000	January 2029	<i>Note 1</i>
12 May 2020	Issuance of medium-term notes	RMB1,000	5+N years <i>Note 5</i>	<i>Note 1</i>
16 November 2020	Green loan facility with a bank	HK\$1,800	November 2025	<i>Note 2</i>
25 November 2020	Term loan facility with a bank	HK\$1,500	November 2025	<i>Note 2</i>
20 January 2022	Issuance of medium-term notes	RMB1,000	January 2027 <i>Note 4</i>	<i>Note 6</i>
		RMB1,000	January 2027	<i>Note 6</i>

REPORT OF THE DIRECTORS

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER *(Continued)*

Notes:

1. (i) BEHL owns or controls at least/more than 35% of the voting rights of the issued share capital of the Company, whether directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise; (ii) BEHL supervises the Company and/or have management control over the Company; (iii) BEHL is directly or indirectly the single largest shareholder of the Company; and/or (iv) the nominees of BEHL comprise the majority of the members of the Board.
2. (i) BEHL owns, directly or indirectly, at least 35% of the beneficial shareholding carrying at least 35% of voting rights in the Company, free from any security; (ii) BEHL supervises the Company and/or have management control over the Company; (iii) BEHL is directly or indirectly the single largest shareholder of the Company; (iv) BEGCL owns, directly or indirectly, at least 40% of the beneficial shareholding carrying at least 40% of the voting rights in BEHL, free from any security; (v) BEGCL is directly or indirectly the single largest shareholder of BEHL or supervises BEHL; and (vi) BEGCL is effectively wholly-owned, supervised and controlled by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality* (北京市人民政府國有資產監督管理委員會) ("Beijing SASAC").
3. (i) BEHL owns, directly or indirectly, more than 35% of the issued share capital of the Company; (ii) BEHL is the single largest shareholder of the Company; (iii) BEGCL owns, directly or indirectly, at least 40% of the beneficial shareholding carrying at least 40% of the voting rights in BEHL, free from any security and (iv) BEGCL is effectively wholly-owned, supervised and controlled by Beijing SASAC.
4. Two years prior to the maturity pursuant to the terms and conditions in the medium-term notes, the Company shall be entitled to adjust the coupon rate of the medium-term notes and the note holders shall be entitled to sell back the medium-term notes to the Company.
5. The reset date of each coupon rate is the redemption date. The Company has the right to choose to redeem the principal at the face value plus accrued interest on the first reset date of the coupon rate of the medium-term note and every subsequent interest payment date. The reset date of coupon rate is the corresponding day of every 5 years from the first reset date of coupon rate. The end of the fifth interest-bearing year is the first reset date of coupon rate. From the sixth interest bearing year, the coupon rate is reset every 5 years.
6. (i) BEGCL owns or controls, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company; (ii) BEGCL supervises the Company; (iii) BEGCL is directly or indirectly the single largest shareholder of the Company; and (iv) the nominees of BEGCL comprise the majority of the members of the Board.

* *For identification purposes only*

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

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company is committed to maintaining the quality of corporate governance so as to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value. During the year ended 31 December 2021, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules, with deviation mentioned below.

Code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend the annual general meeting of the Company. Having regard to the travel restrictions in connection with the COVID-19 pandemic, the chairman of the Board did not attend the annual general meeting of the Company held on 9 June 2021. In his absence, the executive director of the Company was invited to chair the annual general meeting and the member of nomination committee of the Company was invited to attend by video/audio conferencing, and was available to answer shareholders' questions at the annual general meeting.

The corporate governance report is set out on pages 33 to 49 of this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDITORS

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

EVENT AFTER THE REPORTING PERIOD

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

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Group for the year ended 31 December 2021 were approved by the board of directors on 30 March 2022.

On behalf of the Board

Li Yongcheng
CHAIRMAN

Hong Kong
30 March 2022

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
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To the shareholders of Beijing Enterprises Water Group Limited

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Beijing Enterprises Water Group Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 98 to 258, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

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

Key audit matter

How our audit addressed the key audit matter

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

Revenue from the construction of sewage and reclaimed water treatment and water distribution plants under the terms of Build-Operate-Transfer (“BOT”) contracts represented approximately 34% of total revenue for the year ended 31 December 2021 and was accounted for under HK(IFRIC) Interpretation 12 *Service Concession Arrangements*. The revenue was estimated on a cost-plus basis with reference to a prevailing market rate of profit margin at the date of the agreement applicable to similar construction services rendered in a similar location. The Group engaged an external valuer to support their estimation of the gross profit margin for the construction revenue. Significant management judgement was involved in determining the construction margins for these construction services.

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

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

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

The Group has significant receivables under service concession arrangements, trade and other receivables and amounts due from contract customers with an aggregate carrying amount of approximately HK\$128.2 billion, which represents 69.8% of the Group's total assets as at 31 December 2021. The provision for expected credit losses ("ECL") of these assets carried as at 31 December 2021 was approximately HK\$1.56 billion in aggregate.

Management has engaged an independent specialist to assist in the calculation of the ECL. The Group considers the available information which includes information about past events, current conditions and forecasts of future economic conditions to estimate the ECL.

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

Relevant disclosures are included in notes 4, 18, 25, 26 and 27 to the financial statements.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Goodwill impairment testing

Management is required to test goodwill for impairment at least on an annual basis. This test is largely based on management expectations, assumptions and estimates of future results of the cash-generating units to which the goodwill has been allocated. The Group engages an external valuer to prepare the valuation models to assist with the impairment assessment. The assumptions are affected by expectations of future market or economic conditions. The impairment test is based on the recoverable amounts of the relevant cash-generating units, which is compared with their respective carrying values. As at 31 December 2021, the goodwill carried in the Group's financial statements was approximately HK\$4.2 billion.

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

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

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

30 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
REVENUE	<i>6</i>	27,880,147	25,360,587
Cost of sales		(17,430,477)	(15,630,932)
Gross profit		10,449,670	9,729,655
Interest income	<i>6</i>	1,096,965	697,401
Other income and gains, net	<i>6</i>	1,248,472	1,312,575
Administrative expenses		(3,158,430)	(2,526,199)
Other operating expenses, net		(905,568)	(1,235,571)
PROFIT FROM OPERATING ACTIVITIES	<i>7</i>	8,731,109	7,977,861
Finance costs	<i>8</i>	(2,718,745)	(2,549,124)
Share of profits and losses of:			
Joint ventures	<i>20</i>	861,712	729,681
Associates	<i>21</i>	58,069	330,781
PROFIT BEFORE TAX		6,932,145	6,489,199
Income tax expense	<i>11</i>	(1,464,224)	(1,248,658)
PROFIT FOR THE YEAR		5,467,921	5,240,541
ATTRIBUTABLE TO:			
Shareholders of the Company		4,195,940	4,183,466
Holders of perpetual capital instruments		211,473	232,180
Non-controlling interests		1,060,508	824,895
		5,467,921	5,240,541
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	<i>13</i>		
– Basic		HK41.42 cents	HK41.57 cents
– Diluted		HK41.17 cents	HK41.16 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
PROFIT FOR THE YEAR		5,467,921	5,240,541
OTHER COMPREHENSIVE INCOME/(LOSS)			
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange fluctuation reserve:			
– Translation of foreign operations		1,386,186	4,551,522
– Release upon disposal of subsidiaries	46	(6)	2,871
– Release upon deemed disposal of partial interest in associates		–	(3,552)
		1,386,180	4,550,841
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>			
– Share of other comprehensive income of a joint venture		5,357	2,050
– Changes in fair value of equity investments designated at fair value through other comprehensive income		(116,039)	(74,669)
		(110,682)	(72,619)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		1,275,498	4,478,222
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,743,419	9,718,763
ATTRIBUTABLE TO:			
Shareholders of the Company		5,165,135	7,692,950
Holders of perpetual capital instruments		327,828	604,263
Non-controlling interests		1,250,456	1,421,550
		6,743,419	9,718,763

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
ASSETS			
Non-current assets:			
Property, plant and equipment	14	5,150,464	4,700,229
Right-of-use assets	16	567,414	787,019
Investment properties	15	872,622	855,598
Goodwill	17	4,213,729	4,183,392
Operating concessions	18	10,125,374	5,556,365
Other intangible assets	19	403,783	358,928
Investments in joint ventures	20	10,961,554	9,968,952
Investments in associates	21	6,535,839	6,361,473
Equity investments designated at fair value through other comprehensive income	23	1,171,428	1,410,899
Financial asset at fair value through profit or loss	22	52,268	68,036
Amounts due from contract customers	25	36,255,486	42,314,218
Receivables under service concession arrangements	18	53,218,131	41,698,277
Trade receivables	26	11,956,063	12,277,112
Prepayments, deposits and other receivables	27	2,138,861	2,148,932
Deferred tax assets	40	398,869	264,250
Total non-current assets		144,021,885	132,953,680
Current assets:			
Inventories	24	239,991	230,871
Amounts due from contract customers	25	3,798,733	3,091,651
Receivables under service concession arrangements	18	5,522,723	4,131,424
Trade receivables	26	8,890,896	8,955,073
Prepayments, deposits and other receivables	27	9,927,307	9,749,686
Restricted cash and pledged deposits	29	478,956	591,542
Cash and cash equivalents	29	10,742,695	14,697,194
Total current assets		39,601,301	41,447,441
TOTAL ASSETS		183,623,186	174,401,121

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	30	1,013,582	1,002,160
Perpetual capital instrument	34	1,216,904	1,187,358
Reserves	33	37,798,892	35,154,294
		40,029,378	37,343,812
Perpetual capital instruments	34	3,034,399	6,623,082
Non-controlling interests		20,484,977	13,157,111
		23,519,376	19,780,193
TOTAL EQUITY		63,548,754	57,124,005
Non-current liabilities:			
Other payables and accruals	42	807,543	1,325,842
Bank and other borrowings	35	45,842,406	42,808,986
Corporate bonds	36	16,851,404	12,517,494
Notes payable	37	–	2,379,704
Lease liabilities	16	108,268	300,144
Provision for major overhauls	38	302,166	230,496
Deferred income	39	1,489,354	1,696,195
Deferred tax liabilities	40	4,973,688	4,096,254
Total non-current liabilities		70,374,829	65,355,115
Current liabilities:			
Trade payables	41	25,071,178	26,421,706
Other payables and accruals	42	9,610,921	9,639,580
Income tax payables		1,580,336	1,436,514
Bank and other borrowings	35	10,831,453	6,824,691
Corporate bonds	36	149,632	7,490,730
Notes payable	37	2,438,588	–
Lease liabilities	16	17,495	108,780
Total current liabilities		49,699,603	51,922,001
TOTAL LIABILITIES		120,074,432	117,277,116
TOTAL EQUITY AND LIABILITIES		183,623,186	174,401,121

Li Yongcheng
Director

Zhou Min
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

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

* These reserve accounts comprise the consolidated reserves of HK\$37,798,892,000 (2020: HK\$35,154,294,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Attributable to shareholders of the Company															Total equity HK\$'000		
	Notes	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Shares held	Share option	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Fair value reserve HK\$'000	Defined benefit plan reserve HK\$'000	Exchange fluctuation reserve HK\$'000	PRC reserve funds HK\$'000	Retained profits HK\$'000	Perpetual capital instrument HK\$'000	Total HK\$'000		Perpetual capital instruments HK\$'000	Non-controlling interests HK\$'000
					under share award scheme HK\$'000 (note 32)	and share award reserve HK\$'000 (note 33 (b))												
At 1 January 2020		1,002,120	2,537,183	6,510,858	(110,014)	276,299	115,491	122,482	89,836	(58,464)	(3,873,027)	2,126,163	21,809,523	-	30,548,450	6,250,999	9,731,727	46,531,176
Profit for the year		-	-	-	-	-	-	-	-	-	-	-	4,153,869	29,597	4,183,466	232,180	824,895	5,240,541
Other comprehensive income/ (loss) for the year:																		
Exchange differences related to foreign operations		-	-	-	-	-	-	-	-	3,582,784	-	-	-	-	3,582,784	372,083	596,655	4,551,522
Release upon disposal of subsidiaries	46	-	-	-	-	-	-	-	-	2,871	-	-	-	-	2,871	-	-	2,871
Release upon deemed disposal of partial interest in associates		-	-	-	-	-	-	-	-	(3,552)	-	-	-	-	(3,552)	-	-	(3,552)
Share of other comprehensive income of a joint venture		-	-	-	-	-	-	-	2,050	-	-	-	-	-	2,050	-	-	2,050
Changes in fair value of equity investments designated at fair value through other comprehensive income		-	-	-	-	-	-	(74,669)	-	-	-	-	-	-	(74,669)	-	-	(74,669)
Total comprehensive income/ (loss) for the year		-	-	-	-	-	-	(74,669)	2,050	3,582,103	-	4,153,869	29,597	7,692,950	604,263	1,421,550	9,718,763	
Issuance of a perpetual capital instrument	34	-	-	-	-	-	-	-	-	-	-	-	1,187,358	1,187,358	-	-	1,187,358	
Exercise of share options	31	40	1,189	-	-	(332)	-	-	-	-	-	-	-	897	-	-	897	
Exercise of share awards	32	-	-	-	56,329	(53,171)	-	-	-	-	-	-	(3,158)	-	-	-	-	
Equity-settled share award arrangements	32(b)	-	-	-	-	27,244	-	-	-	-	-	-	-	-	27,244	-	-	27,244
Shares purchased for share award scheme	32(a)	-	-	-	(67,583)	-	-	-	-	-	-	-	-	-	(67,583)	-	-	(67,583)
Transfer of share award reserve upon forfeiture of share awards		-	-	-	-	(1,317)	-	-	-	-	-	-	1,317	-	-	-	-	-
Release upon disposal of equity investment through other comprehensive income		-	-	-	-	-	-	(39,860)	-	-	-	-	39,860	-	-	-	-	-
Acquisition of subsidiaries	45	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,709	16,709
Acquisition of non-controlling interests		-	-	-	-	-	17,841	-	-	-	-	-	-	-	17,841	-	(101,007)	(83,166)
Disposal of partial interests in subsidiaries		-	-	-	-	-	26,099	-	-	-	-	-	-	-	26,099	-	8,476	34,575
Disposal/deregistration of subsidiaries	46	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(490,420)	(490,420)
Share of reserves of associates		-	-	-	-	(1,600)	28,800	-	-	-	-	-	-	-	27,200	-	-	27,200
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(404,712)	(404,712)
Capital contributions from non-controlling equity holders		-	-	-	-	-	(463,614)	-	-	-	-	-	-	-	(463,614)	-	2,974,788	2,511,174
Distributions declared to holders of perpetual capital instruments	34	-	-	-	-	-	-	-	-	-	-	-	-	(29,597)	(29,597)	(232,180)	-	(261,777)
Final 2019 cash distributions paid	12	-	-	(781,653)	-	-	-	-	-	-	-	-	-	-	(781,653)	-	-	(781,653)
Interim 2020 cash distributions paid	12	-	-	(841,780)	-	-	-	-	-	-	-	-	-	-	(841,780)	-	-	(841,780)
Transfer to reserves		-	-	-	-	-	-	-	-	-	-	469,995	(469,995)	-	-	-	-	-
At 31 December 2020		1,002,160	2,538,372*	4,887,425*	(121,268)*	247,123*	(275,383)*	122,482*	(24,693)*	(56,414)*	(290,924)*	2,596,158*	25,531,416*	1,187,358	37,343,812	6,623,082	13,157,111	57,124,005

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		6,932,145	6,489,199
Adjustments for:			
Bank interest income	6	(308,994)	(237,293)
Interest income on trade and other receivables with extended credit periods	6	(766,849)	(431,232)
Interest income on loans to joint ventures	6	(16,089)	(14,597)
Interest income on loans to an associate	6	(5,033)	–
Other interest income	6	–	(14,279)
Dividend income from equity investments at fair value through other comprehensive income	6	(28,461)	(38,338)
Fair value loss/(gain) on investment properties	7	3,797	(745)
Gain on bargain purchase of subsidiaries	6	–	(23,188)
Gain on disposal of subsidiaries, net	6	(431)	(5,912)
Loss on derecognition of BOT projects	7	133,724	–
Loss on deregistration of an associate	7	–	1,362
Gain on deemed disposal of partial interest in associates	6	–	(129,917)
Depreciation of right-of-use assets	7	44,990	82,027
Depreciation of property, plant and equipment	7	334,231	360,843
Amortisation of operating concessions	7	465,062	214,821
Amortisation of other intangible assets	7	50,805	31,074
Impairment of receivables under service concession arrangements, net	7	14,964	74,099
Impairment/(reversal of impairment) of amounts due from contract customers, net	7	3,066	(9,255)
Impairment of trade receivables, net	7	164,717	131,410
Impairment/(reversal of impairment) of other receivables, net	7	(2,499)	479,336
Impairment of items of property, plant and equipment	7	–	74,812
Provision for major overhauls	7	274,981	209,024
Gain on disposal of items of property, plant and equipment, net	6	(5,343)	(1,469)
Equity-settled share award expenses	7	37,539	27,244
Finance costs	8	2,904,651	2,821,879
Share of profits and losses of joint ventures		(861,712)	(729,681)
Share of profits and losses of associates		(58,069)	(330,781)
Operating profit before working capital changes		9,311,192	9,030,443

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	<i>Note</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Operating profit before working capital changes		9,311,192	9,030,443
(Increase)/decrease in inventories		(3,447)	24,991
Decrease in amounts due from contract customers		3,306,768	6,646,866
Increase in receivables under service concession arrangements		(12,331,651)	(9,582,644)
Decrease/(increase) in trade receivables		1,494,153	(8,758,028)
Decrease in prepayments, deposits and other receivables		474,408	147,685
Decrease in trade payables		(1,970,895)	(1,903,313)
(Decrease)/increase in other payables and accruals		(1,242,673)	1,593,649
Utilisation of provision for major overhauls	38	(242,731)	(235,503)
Cash used in operations		(1,204,876)	(3,035,854)
Mainland China corporate income tax paid		(655,236)	(602,071)
Overseas taxes paid		(24,269)	(23,589)
Net cash flows used in operating activities		(1,884,381)	(3,661,514)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(182,775)	(760,696)
Purchases of leasehold land	<i>16</i>	(311,502)	(54,469)
Additions of operating concessions		(1,851,238)	(753,961)
Additions of other intangible assets		(15,158)	(120,697)
Acquisition of subsidiaries	<i>45</i>	–	688
Payment for acquisition of subsidiaries in prior years		–	(37,106)
Disposal of subsidiaries	<i>46</i>	59,306	192,505
Proceeds from disposal of other intangible assets		303	3
Proceeds from disposal of items of property, plant and equipment		88,091	23,918
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		151,733	68,638
Acquisition of/increase in investments in joint ventures		(301,663)	(528,682)
Acquisition of/increase in investments in associates		(95,325)	(55,580)
Purchases of equity investments designated at fair value through other comprehensive income		(20,514)	(142,328)
(Increase)/decrease in time deposits with maturity of more than three months when acquired		(18,640)	21,634
Decrease/(increase) in restricted cash and pledged deposits		112,586	(378,715)
Redemption of an asset-backed note	<i>22</i>	17,427	16,045
Dividends received from joint ventures		245,021	246,596
Dividends received from equity instruments at fair value through other comprehensive income		28,461	38,338
Bank interest received		308,994	237,293
Net cash flows used in investing activities		(1,784,893)	(1,986,576)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		5,635,513	2,511,174
Acquisition of non-controlling interests		–	(83,166)
Issuance of corporate bonds		4,253,139	2,521,859
Issuance of a perpetual capital instrument		2,997,840	1,187,358
Repayment of corporate bonds		(7,527,614)	(1,682,199)
Repayment of a note payable		–	(700,000)
Repayment of perpetual capital instruments	<i>34</i>	(6,702,878)	–
Distributions to holders of perpetual capital instruments	<i>34</i>	(200,835)	(261,777)
New bank and other borrowings		17,478,441	23,461,868
Repayment of bank and other borrowings		(11,726,836)	(14,441,298)
Proceeds from exercise of share options		256,323	897
Proceeds from disposal of partial interest of a subsidiary		–	34,575
Shares purchased for the share award scheme		(36,848)	(67,583)
Principal portion of lease payments		(27,900)	(151,844)
Interest paid		(2,816,360)	(2,697,563)
Distributions paid		(1,690,838)	(1,623,433)
Dividends paid to non-controlling equity holders		(328,066)	(404,712)
Net cash flows (used in)/from financing activities		(436,919)	7,604,156
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		14,651,987	12,093,074
Effect of foreign exchange rate changes, net		133,054	602,847
CASH AND CASH EQUIVALENTS AT END OF YEAR		10,678,848	14,651,987
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	<i>29</i>	10,742,695	14,697,194
Less: Time deposits with maturity of more than three months when acquired		(63,847)	(45,207)
Cash and cash equivalents as stated in the consolidated statement of cash flows		10,678,848	14,651,987

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
深圳北控創新投資有限公司#	PRC/Mainland China	RMB300,000,000	–	64.41	Sewage treatment
深圳北控豐泰投資有限公司#	PRC/Mainland China	RMB70,000,000	–	64.41	Sewage treatment
綿陽中科成污水淨化有限公司#	PRC/Mainland China	RMB40,000,000	–	64.41	Sewage treatment
廣州中業污水處理有限公司#	PRC/Mainland China	RMB85,000,000	–	64.41	Sewage treatment
江油中科成污水淨化有限公司#	PRC/Mainland China	RMB8,000,000	–	64.41	Sewage treatment
成都雙流中科成污水淨化有限公司#	PRC/Mainland China	RMB30,000,000	–	64.41	Sewage treatment
青島膠南中科成污水淨化有限公司#	PRC/Mainland China	RMB30,000,000	–	64.41	Sewage treatment
青島中科成污水淨化有限公司#	PRC/Mainland China	RMB59,466,273/ RMB96,679,640	–	92.63	Sewage treatment

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
廣州中科成污水淨化有限公司#	PRC/Mainland China	RMB40,000,000	–	64.41	Sewage treatment
台州市路橋中科成污水淨化有限公司#	PRC/Mainland China	RMB55,500,000	–	64.41	Sewage treatment
成都龍泉中科成污水淨化有限公司#	PRC/Mainland China	RMB27,600,000	–	64.41	Sewage treatment
菏澤中科成污水淨化有限公司#	PRC/Mainland China	RMB30,000,000	–	64.41	Sewage treatment
濟南中科成水質淨化有限公司#	PRC/Mainland China	RMB20,000,000	–	64.41	Sewage treatment
彭州中科成污水淨化有限公司#	PRC/Mainland China	RMB50,000,000	–	64.41	Sewage treatment
佛山市三水中科成水質淨化有限公司#	PRC/Mainland China	RMB76,000,000	–	64.41	Sewage treatment
永州市北控污水淨化有限公司 [□]	PRC/ Mainland China	HK\$85,630,000	100	–	Sewage treatment
清鎮市北控水務有限公司	PRC/Mainland China	RMB26,500,000	–	60	Sewage treatment
海南北控水務有限公司	PRC/Mainland China	RMB5,000,000	–	100	Sewage treatment
昆明空港北控水務有限公司	PRC/Mainland China	RMB53,090,000	–	100	Sewage treatment
玉溪北控城投水質淨化有限公司	PRC/Mainland China	RMB91,380,000	–	100	Sewage treatment
北控水務集團(海南)有限公司#	PRC/Mainland China	RMB131,710,300/ RMB1,000,000,000	–	57.97	Sewage treatment
百色中環水業有限公司 [□]	PRC/Mainland China	HK\$20,000,000	–	100	Sewage treatment
齊齊哈爾市北控污水淨化有限公司	PRC/Mainland China	RMB56,000,000	–	100	Sewage treatment
錦州市北控水務有限公司 [□]	PRC/Mainland China	RMB127,178,541	80	–	Sewage treatment and reclaimed water treatment
廣西貴港北控水務有限公司	PRC/Mainland China	RMB83,184,898	–	39.91*	Sewage treatment and water distribution
Be Water S.A.	Portugal	€11,987,000	–	100	Sewage treatment and water distribution
北京北控污水淨化及回用有限公司	PRC/Mainland China	RMB26,360,000	–	100	Reclaimed water treatment
成都北控蜀都投資有限公司# ("Beikong Shudu")	PRC/Mainland China	RMB567,035,714/ RMB852,750,000	–	44.12*	Construction services and sewage treatment

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
北京建工環境發展有限責任公司# ("BCEG Environmental")	PRC/Mainland China	RMB690,000,000	–	38.65*	Construction services and investment holding
BEWG (M) Sdn Bhd	Malaysia	MYR75,000,000	–	100	Construction services
昆明捷運泰富環保工程有限公司 [□]	PRC/Mainland China	RMB100,000,000	–	70	Construction services
昆明捷運路橋發展有限公司 [□]	PRC/Mainland China	RMB150,000,000	–	70	Construction services
北控(洛陽)水環境開發有限公司	PRC/Mainland China	RMB300,000,000	–	100	Construction services
北京北控淨都水環境治理有限公司	PRC/Mainland China	RMB250,000,000	–	100	Construction services
佛山北控水環境開發有限公司 [□]	PRC/Mainland China	RMB100,000,000	–	70	Construction services
簡陽鴻琛建設工程有限公司	PRC/Mainland China	RMB250,000,000	–	60	Construction services
濱州北控西海水務有限公司#	PRC/Mainland China	RMB50,000,000	–	53.98	Water distribution
遵義北控水務有限公司 [□]	PRC/Mainland China	RMB50,236,000	80	–	Water distribution
德清達閘制水有限公司 [□]	PRC/Mainland China	US\$11,960,000	–	100	Water distribution
BEWGI-UE NEWater (S) Pte Ltd	Singapore	SGD100,000	–	80	Reclaimed water treatment
泉州安平供水有限公司 [□]	PRC/Mainland China	US\$6,600,000	–	100	Water distribution
雲南北控水務有限公司	PRC/Mainland China	RMB180,000,000	–	100	Investment holding
北控中科成環保集團有限公司# [□] ("BEWG Environmental")	PRC/Mainland China	RMB1,036,441,317/ RMB1,737,821,244	–	64.41	Consultancy services and investment holding
南京市市政設計研究院有限責任公司	PRC/Mainland China	RMB60,000,000	–	99.17	Consultancy services
北控水務(中國)投資有限公司 [□]	PRC/Mainland China	US\$500,000,000	100	–	Investment holding and consultancy services
上海北控亞同水務投資有限公司#	PRC/Mainland China	RMB100,000,000	–	64.41	Investment holding
北控(鞍山)水務有限公司	PRC/Mainland China	RMB65,000,000	–	70	Sewage treatment
阜新市北控水務有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
北控 (洛陽) 水務發展有限公司	PRC/Mainland China	RMB800,000,000	–	70	Sewage treatment
廣東鶴山北控水務有限公司	PRC/Mainland China	RMB78,330,000	–	70	Water distribution
金堂北控水環境治理有限公司 [#]	PRC/Mainland China	RMB30,000,000	–	43.15*	Construction services
成都青白江中科成污水淨化有限公司 [#]	PRC/Mainland China	RMB40,000,000	–	64.41	Sewage treatment
錦州市小凌河北控水務有限公司	PRC/Mainland China	RMB33,250,000/ RMB66,500,000	–	100	Sewage treatment
廣安北控廣和水務有限公司 [#]	PRC/Mainland China	RMB70,000,000	–	64.41	Water distribution
北京稻香水質淨化有限公司 [#]	PRC/Mainland China	RMB58,000,000	–	64.41	Reclaimed water treatment
東莞市德高水務有限公司 [□]	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
北控彭州自來水有限公司 [#]	PRC/Mainland China	RMB73,600,000	–	45.09*	Water distribution
北控南陽水務集團有限公司 [#]	PRC/Mainland China	RMB102,626,900/ RMB156,626,900	–	28.28*	Water distribution
永州市水務運營發展有限責任公司	PRC/Mainland China	RMB346,672,900/ RMB473,213,300	–	49*	Water distribution
成都北控陽安水環境治理有限公司	PRC/Mainland China	RMB567,000,000	–	56.98	Construction services
北控 (濟源) 污水淨化有限公司	PRC/Mainland China	RMB166,330,000	–	100	Sewage treatment
淇縣北控供水有限公司 [#]	PRC/Mainland China	RMB10,000,000	–	51.53	Water distribution
淮安市水利勘测設計研究院有限公司	PRC/Mainland China	RMB10,000,000	–	70	Consultancy service
平陰北控水環境開發有限公司	PRC/Mainland China	RMB280,000,000	–	90	Construction services
鄒平北控水務有限公司 [#]	PRC/Mainland China	RMB407,200,000	–	38.65*	Water distribution
瀘州北控環保工程投資有限公司 [#]	PRC/Mainland China	RMB100,000,000	–	61.53	Construction services
內蒙古科源水務有限公司	PRC/Mainland China	RMB177,100,000	–	67	Water distribution
北控 (成都雙流) 水務有限公司	PRC/Mainland China	RMB191,160,060/ RMB220,013,000	–	100	Sewage treatment
廣州增城北控水處理有限公司	PRC/Mainland China	RMB190,000,000	–	90	Sewage treatment

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
北控 (杭州) 環境工程有限公司 ^Ω	PRC/Mainland China	RMB687,000,000	99.7	–	Construction services
TRILITY Group PTY Ltd. (“Trility”)	Australia	AUD209,100,000	–	100	Investment holding
廣州增城北控水質淨化有限公司	PRC/Mainland China	RMB85,740,000	–	99.9	Sewage treatment
衡水京成水環境有限公司	PRC/Mainland China	RMB242,234,996/ RMB249,726,800	–	78.79	Construction service
攀枝花北控水務有限公司 [#]	PRC/Mainland China	RMB100,000,000	–	41.87*	Sewage treatment
北控 (蘭考縣) 污水處理有限公司	PRC/Mainland China	RMB85,500,000	–	100	Sewage treatment
濰坊北控水務發展有限公司	PRC/Mainland China	RMB92,580,416/ RMB130,000,000	–	100	Sewage treatment
Orgo Investments S.a.r.l	Luxembourg	EUR12,500	–	100	Investment holding
BEWG (PT) S.A.	Portugal	EUR50,000	–	100	Sewage treatment and investment holding
瀋陽紅菱姚千污水處理有限公司 ^Ω	PRC/Mainland China	RMB28,483,795	–	99.9	Sewage treatment
北京稻香水資源科技有限公司 ^Ω	PRC/Mainland China	RMB12,500,000/ RMB125,921,300	100	–	Reclaimed water treatment

^Ω *These entities are registered as wholly-foreign-owned enterprises under the PRC law*

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

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

^Ω *Incorporated during the year*

[#] *In December 2020, the Group entered into a capital injection agreement with an independent third party (“the investor”), pursuant to which the investor agreed to make cash contributions of RMB2 billion to BEWG Environmental. Upon completion of the first capital injections, the Group's percentage of shareholding in BEWG Environmental was diluted from 100% to 85.45%.*

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

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

(b) *Controlled special purpose entity*

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

Structured entity	Principal activities
Share Award Scheme Trust	Purchases, administers and holds the shares of the Company for the share award scheme for the benefit of eligible participants <i>(note 32)</i>

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

2. BASIS OF PRESENTATION

Despite that the Group had net current liabilities of HK\$10.1 billion and capital commitments of approximately HK\$22.5 billion (comprising the Group's capital commitments and the Group's share of joint ventures' own capital commitments) in aggregate as at 31 December 2021, as detailed in note 50 to the financial statements, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group's cash flow projection which, inter alia, has taken into account the historical operating performance of the Group and the following:

- (a) the existing banking facilities available to the Group as at 31 December 2021 and on the assumption that such facilities will continue to be available from the Group's principal bankers;
- (b) certain of the above-mentioned total capital commitments are expected to be fulfilled by the Group after 2022 with reference to the terms of the respective agreements and the current status of the respective projects; and
- (c) the Company will consider equity financing when necessary.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7 HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform - Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i> (early adopted)

The nature and the impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars based on the Hong Kong Interbank Offered Rate ("HIBOR") as at 31 December 2021. The Group expects that HIBOR will continue to exist and the interest rate benchmark reform has not had an impact on the Group's HIBOR-based borrowings.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, 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 amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
HKFRS 17	<i>Insurance Contracts²</i>
Amendments to HKFRS 17	<i>Insurance Contracts^{2, 5}</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information^{2, 6}</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current^{2, 4}</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies²</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates²</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction²</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use¹</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract¹</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41¹</i>

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

² Effective for annual periods beginning on or after 1 January 2023

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

⁵ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

⁶ The HKICPA amends HKFRS 17 in February 2022 to permit a classification overlay for financial assets presented in comparative periods on initial application of HKFRS 17

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

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

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

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

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

Amendments to HKAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- *HKFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- *HKFRS 16 Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in joint operations

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

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

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

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

Related parties

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

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

or

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

Business combinations and goodwill

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 June (2020: 30 June). For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment property

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessee (Continued)

(b) Lease liabilities

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

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

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

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

Group as a lessor

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessor (Continued)

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

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

Service concession arrangements

Consideration given by the grantor

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

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

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

Construction or upgrade services

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

Operating services

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

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

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

Intangible assets (other than goodwill)

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

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

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

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

Operating concessions

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

Patents

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Computer software

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

Research and development costs

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

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than goodwill, deferred tax assets, financial assets, investment properties, inventories and amounts due from contract customers), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis, or, otherwise, to the smallest group of cash-generating units.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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

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

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

Financial assets at fair value through profit or loss

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach (Continued)

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Financial guarantee contracts

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedge accounting *(Continued)*

Initial recognition and subsequent measurement (Continued)

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

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

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

Cash flow hedges

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedge accounting *(Continued)*

Current versus non-current classification

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

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

Inventories

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

Treasury shares

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract assets

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

Contract liabilities

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

Contract costs

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

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

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

Cash and cash equivalents

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Perpetual capital instruments

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

Provisions

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

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

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

Income tax

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

(a) Construction services

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

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

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

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

(c) Sales of water and machineries

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

Revenue from other sources

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

Other income

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity compensation benefits

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity compensation benefits *(Continued)*

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

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

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

Shares held under share award scheme

As disclosed in note 32 to the financial statements, the Group has set up a trust for the share award scheme, where the trust purchases shares issued by the Group, and the consideration paid by the Company, including any directly attributable incremental costs, is presented as “Shares held under share award scheme” and deducted from the Group’s equity.

Other employee benefits

Defined contribution plans

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

Defined benefit plan

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

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

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

Borrowing costs

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

Dividends

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

The functional currencies of certain Hong Kong, Mainland China and overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their profit or loss and statements of comprehensive income are translated into Hong Kong dollars at the exchange rates that approximate to those prevailing at the dates of the transactions. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of the exchange fluctuation reserve relating to that particular foreign operation is recognised in the statement of profit or loss.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Construction work and service contracts

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the relevant business units to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The total carrying amount of goodwill as at 31 December 2021 was HK\$4,213,729,000 (2020: HK\$4,183,392,000) in aggregate, details of which are set out in note 17 to the financial statements.

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

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

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

The policy for provision for expected credit losses on receivables under service concession arrangements, trade and other receivables and amounts due from contract customers of the Group is based on an ECL model. A considerable amount of estimation is required in assessing the available information which includes information about past events, current conditions and forecasts future economic conditions to estimate the ECL. The carrying amounts of receivables under service concession arrangements, trade receivables, other receivables and amounts due from contract customers carried as assets in the consolidated statement of financial position as at 31 December 2021 were HK\$58,740,854,000 (2020: HK\$45,829,701,000), HK\$20,846,959,000 (2020: HK\$21,232,185,000), HK\$8,527,754,000 (2020: HK\$6,463,095,000) and HK\$40,054,219,000 (2020: HK\$45,405,869,000), respectively, further details of which are set out in notes 18, 26, 27 and 25 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

Current tax and deferred tax

The Group is mainly subject to income taxes in Hong Kong, Mainland China, Portugal, Malaysia, Singapore and Australia. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as a liability in the consolidated statement of financial position as at 31 December 2021 was HK\$1,580,336,000 (2020: HK\$1,436,514,000).

Deferred tax assets relating to certain deductible temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried as assets and liabilities in the consolidated statement of financial position as at 31 December 2021 were HK\$398,869,000 (2020: HK\$264,250,000) and HK\$4,973,688,000 (2020: HK\$4,096,254,000), respectively, details of which are set out in note 40 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. OPERATING SEGMENT INFORMATION

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2021

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sale of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue <i>(note 6)</i>	20,749,712	3,069,094	4,061,341	27,880,147
Cost of sales	(13,682,340)	(1,664,334)	(2,083,803)	(17,430,477)
Gross profit	7,067,372	1,404,760	1,977,538	10,449,670
Segment results:				
The Group	7,155,577	1,242,279	1,302,840	9,700,696
Share of profits and losses of:				
Joint ventures	680,161	172,883	11,162	864,206
Associates	13,551	2,342	934	16,827
	7,849,289	1,417,504	1,314,936	10,581,729
Corporate and other unallocated income and expenses, net				(969,587)
Share of profits of joint ventures and associates				38,748
Finance costs				(2,718,745)
Profit before tax				6,932,145
Income tax expense				(1,464,224)
Profit for the year				5,467,921
Profit for the year attributable to shareholders of the Company:				
Operating segments	6,161,833	1,008,317	1,151,320	8,321,470
Corporate and other unallocated items				(4,125,530)
				4,195,940

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2021 *(Continued)*

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sale of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets:				
Operating segments	126,528,278	25,145,215	10,058,159	161,731,652
Corporate and other unallocated items				21,891,534
				<u>183,623,186</u>
Other segment information:				
Capital expenditure*				
– Operating segments	4,695,347	288,114	55,716	5,039,177
– Amount unallocated				209,802
				<u>5,248,979</u>
Depreciation				
– Operating segments	58,754	191,864	59,344	309,962
– Amount unallocated				69,259
				<u>379,221</u>
Amortisation of operating concessions	337,144	127,918	–	465,062
Amortisation of other intangible assets				
– Operating segments	1,932	3,646	3,364	8,942
– Amount unallocated				41,863
				<u>50,805</u>
Impairment/(reversal of impairment) of segment assets, net**				
– Operating segments	166,217	2,708	13,822	182,747
Provision for major overhauls	227,988	46,993	–	274,981

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2020

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sale of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue <i>(note 6)</i>	19,401,874	2,703,320	3,255,393	25,360,587
Cost of sales	(12,599,147)	(1,461,067)	(1,570,718)	(15,630,932)
Gross profit	6,802,727	1,242,253	1,684,675	9,729,655
Segment results:				
The Group	6,712,450	1,170,843	1,226,254	9,109,547
Share of profits and losses of:				
Joint ventures	540,027	237,364	1,489	778,880
Associates	25,971	–	–	25,971
	7,278,448	1,408,207	1,227,743	9,914,398
Corporate and other unallocated income and expenses, net				(1,131,686)
Share of profits of joint ventures and associates				255,611
Finance costs				(2,549,124)
Profit before tax				6,489,199
Income tax expense				(1,248,658)
Profit for the year				5,240,541
Profit for the year attributable to shareholders of the Company:				
Operating segments	5,664,860	1,022,955	1,077,764	7,765,579
Corporate and other unallocated items				(3,582,113)
				4,183,466

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2020 *(Continued)*

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sale of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets:				
Operating segments	119,283,805	22,769,215	10,618,722	152,671,742
Corporate and other unallocated items				21,729,379
				<u>174,401,121</u>
Other segment information:				
Capital expenditure*				
– Operating segments	516,697	978,483	120,066	1,615,246
– Amount unallocated				20,108
				<u>1,635,354</u>
Depreciation				
– Operating segments	90,334	202,682	77,427	370,443
– Amount unallocated				72,427
				<u>442,870</u>
Amortisation of operating concessions	120,365	94,456	–	214,821
Amortisation of other intangible assets				
– Operating segments	1,300	2,583	3,690	7,573
– Amount unallocated				23,501
				<u>31,074</u>
Impairment/(reversal of impairment) of segment assets, net**				
– Operating segments	123,589	390	147,087	271,066
Provision for major overhauls	174,728	34,296	–	209,024

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue from external customers:		
Mainland China	26,265,120	23,959,653
Elsewhere	1,615,027	1,400,934
	27,880,147	25,360,587
Non-current assets:		
Mainland China	37,456,537	31,277,742
Portugal	517,368	567,969
Australia	578,287	647,437
Elsewhere	278,587	278,808
	38,830,779	32,771,956

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

Information about major customers

During the year ended 31 December 2021, the Group had no transaction with any single external customer which contributed over 10% of the Group's total revenue for the year (2020: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue from contracts with customers		
Sewage and reclaimed water treatment services	8,145,080	6,257,537
Construction services	12,604,632	13,144,337
Water distribution services	3,069,094	2,703,320
Technical and consultancy services and sale of machineries	4,061,341	3,255,393
	27,880,147	25,360,587

Imputed interest income under service concession arrangements amounting to HK\$3,390,411,000 (2020: HK\$2,591,762,000) is included in the above revenue.

Revenue from contracts with customers

(i) *Disaggregated revenue information*

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

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

(ii) *Performance obligations*

The aggregate amount of the transaction prices allocated to the performance obligations that are unsatisfied (or partially unsatisfied) of BOT and Transfer-Operate-Transfer ("TOT") arrangements as at 31 December 2021 was HK\$233 billion (2020: HK\$217 billion). The performance obligations expected to be satisfied in more than one year relate to the services of BOT and TOT arrangements. The amounts disclosed above do not include variable consideration which is constrained.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest income		
Bank interest income	308,994	237,293
Interest income on trade and other receivables with extended credit periods	766,849	431,232
Interest income on loans to joint ventures [†]	16,089	14,597
Interest income on loans to an associate [#]	5,033	–
Others*	–	14,279
	1,096,965	697,401
Other income		
Gross rental income	28,202	26,982
Government grants [§]	167,876	133,345
Sludge treatment income	154,329	143,389
Pipeline installation income	332,251	205,643
Dividend income from equity investments at fair value through other comprehensive income	28,461	38,338
Others	531,579	603,647
	1,242,698	1,151,344
Gains, net		
Fair value gain on investment properties <i>(note 15)</i>	–	745
Gain on bargain purchase of subsidiaries <i>(note 45)</i>	–	23,188
Gain on disposal of subsidiaries, net <i>(note 46)</i>	431	5,912
Gain on deemed disposal of partial interest in associates	–	129,917
Gain on disposal of items of property, plant and equipment	5,343	1,469
	5,774	161,231
Other income and gains, net	1,248,472	1,312,575

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

- * *For the year ended 31 December 2020, the interest income recognised represented the interest income on a loan to a non-controlling equity holder of the Group, which was unsecured and bore interest at the benchmark interest rate for 3 to 5-year RMB loans published by the People's Bank of China increased by 25% per annum.*
- † *The interest income recognised mainly represented the interest income on loans to joint ventures of the Group, as further detailed in note 20(d)(i) to the financial statements.*
- # *The interest income recognised mainly represented the interest income on loans to an associate of the Group, as further detailed in note 21(b)(i) to the financial statements.*
- § *The government grants recognised during the current and prior years represented grants received from certain government authorities in respect of the fulfilment of certain specific duties by the Group.*

NOTES TO FINANCIAL STATEMENTS

31 December 2021

7. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
Cost of sewage and reclaimed water treatment services rendered		3,265,409	2,519,673
Cost of construction services		10,079,786	9,959,109
Cost of water distribution services		1,536,417	1,366,611
Cost of technical and consultancy services rendered and machineries sold		2,083,803	1,570,718
Depreciation of property, plant and equipment	<i>14</i>	334,231	360,843
Depreciation of right-of-use assets	<i>16</i>	44,990	82,027
Amortisation of operating concessions*	<i>18</i>	465,062	214,821
Amortisation of other intangible assets*	<i>19</i>	50,805	31,074
Lease payments not included in the measurement of lease liabilities	<i>16</i>	2,449	2,989
Auditor's remuneration		12,000	12,000
Employee benefit expense (including directors' remuneration (note 9)):			
Salaries, allowances and benefits in kind		2,767,280	2,403,700
Equity-settled share award expense	<i>32(b)</i>	37,539	27,244
Pension scheme contributions [#]		300,227	268,480
Welfare and other expenses		517,120	450,192
		3,622,166	3,149,616
Impairment of receivables under service concession arrangements, net	<i>18(b)</i>	14,964	74,099
Impairment/(reversal of impairment) of amounts due from contract customers, net	<i>25</i>	3,066	(9,255)
Impairment of trade receivables, net	<i>26(c)</i>	164,717	131,410
Impairment/(reversal of impairment) of other receivables, net	<i>27(d)</i>	(2,499)	479,336
Impairment of items of property, plant and equipment	<i>14</i>	–	74,812
Provision for major overhauls	<i>38</i>	274,981	209,024
Foreign exchange difference, net		(11,402)	28,555
Loss on deregistration of an associate		–	1,362
Loss on derecognition of BOT projects		133,724	–
Fair value loss/(gain) an investment properties	<i>15</i>	3,797	(745)
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		3,664	3,787

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on bank and other loans	1,911,963	1,745,803
Interest on corporate bonds	805,205	883,480
Interest on notes payable	147,787	148,679
Interest on lease liabilities	6,426	19,655
Total interest expense	2,871,381	2,797,617
Increase in discounted amounts of provision for major overhauls arising from the passage of time (<i>note 38</i>)	33,270	24,262
Total finance costs	2,904,651	2,821,879
Less: Interest included in cost of construction services	(185,906)	(272,755)
	2,718,745	2,549,124

9. DIRECTORS' REMUNERATION

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

	Group	
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Fees	1,350	1,230
Other emoluments:		
Salaries, allowances and benefits in kind	23,419	20,127
Equity-settled share award expense	1,782	8,933
Pension scheme contributions	305	288
	25,506	29,348
	26,856	30,578

NOTES TO FINANCIAL STATEMENTS

31 December 2021

9. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Equity-settled share award expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Year ended 31 December 2021					
Executive directors:					
Mr. Li Yongcheng (<i>Chairman</i>)	–	–	–	–	–
Mr. Jiang Xinhao	–	–	–	–	–
Mr. Zhou Min (<i>Chief Executive Officer</i>)	120	12,377	–	126	12,623
Mr. Li Haifeng	120	3,985	764	18	4,887
Mr. Zhang Tiefu	120	1,949	594	53	2,716
Mr. Ke Jian	–	–	–	–	–
Ms. Sha Ning	–	–	–	–	–
Mr. Tung Woon Cheung Eric	120	–	424	–	544
Mr. Li Li	120	5,108	–	108	5,336
	600	23,419	1,782	305	26,106
Non-executive director:					
Mr. Zhao Feng	120	–	–	–	120
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	–	–	120
Mr. Zhang Gaobo	150	–	–	–	150
Mr. Guo Rui	120	–	–	–	120
Mr. Wang Kaijun	120	–	–	–	120
Mr. Chau On Ta Yuen	70	–	–	–	70
Dr. Lee Man Chun Raymond	50	–	–	–	50
	630	–	–	–	630
Total	1,350	23,419	1,782	305	26,856

Notes:

- (1) Dr. Lee Man Chun Raymond resigned as an independent non-executive director with effect from 23 April 2021.
- (2) Mr. Chan On Ta Yuen is appointed as an independent non-executive director with effect from 23 April 2021.
- (3) Mr. Zhao Feng is appointed as a non-executive director with effect from 1 January 2021.
- (4) Mr. E Meng resigned as an executive director and vice chairman of the Company with effect from 3 January 2020.
- (5) Ms. Sha Ning is appointed as an executive director with effect from 3 January 2020.
- (6) Mr. Li Yongcheng, Ms. Sha Ning, Mr. Jiang Xinhao and Mr. Ke Jian waived directors' remuneration for the years ended 31 December 2021 and 2020 amounting to HK\$130,000, HK\$120,000, HK\$120,000 and HK\$120,000, respectively. Except for the above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year (2020: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2021

9. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Equity-settled share award expense <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
Year ended 31 December 2020					
Executive directors:					
Mr. Li Yongcheng (<i>Chairman</i>)	–	–	–	–	–
Mr. E Meng	–	–	–	–	–
Mr. Jiang Xinhao	–	–	–	–	–
Mr. Zhou Min (<i>Chief Executive Officer</i>)	120	9,022	5,520	102	14,764
Mr. Li Haifeng	120	3,580	479	18	4,197
Mr. Zhang Tiefu	120	2,610	479	84	3,293
Mr. Ke Jian	–	–	–	–	–
Ms. Sha Ning	–	–	–	–	–
Mr. Tung Woon Cheung Eric	120	–	256	–	376
Mr. Li Li	120	4,915	2,199	84	7,318
	600	20,127	8,933	288	29,948
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	–	–	120
Mr. Zhang Gaobo	150	–	–	–	150
Mr. Guo Rui	120	–	–	–	120
Mr. Wang Kaijun	120	–	–	–	120
Dr. Lee Man Chun Raymond	120	–	–	–	120
	630	–	–	–	630
Total	1,230	20,127	8,933	288	30,578

NOTES TO FINANCIAL STATEMENTS

31 December 2021

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2020: three directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining two (2020: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	5,695	3,713
Performance related bonuses	3,871	4,793
Equity-settled share award expense	764	4,079
Pension scheme contributions	296	167
	10,626	12,752

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

	Number of employees	
	2021	2020
HK\$4,500,001 to HK\$5,000,000	1	–
HK\$5,500,001 to HK\$6,000,000	1	–
HK\$6,000,001 to HK\$6,500,000	–	2
	2	2

NOTES TO FINANCIAL STATEMENTS

31 December 2021

11. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2021 (2020: 16.5%).

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current – Hong Kong	8,636	12,282
Current – Mainland China	776,500	688,038
Current – Elsewhere	31,674	8,689
Underprovision/(Overprovision) in prior years	42	(7,889)
Deferred (<i>note 40</i>)	647,372	547,538
Total tax charge for the year	1,464,224	1,248,658

NOTES TO FINANCIAL STATEMENTS

31 December 2021

11. INCOME TAX EXPENSE *(Continued)*

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

Year ended 31 December 2021

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

11. INCOME TAX EXPENSE *(Continued)*

Year ended 31 December 2020

	Hong Kong and overseas		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(1,220,845)		7,710,044		6,489,199	
Tax expense/(credit) at the statutory tax rate	(195,036)	16.0	1,927,511	25.0	1,732,475	26.7
Lower tax rates of specific provinces or enacted by local authorities	-	-	(195,961)	(2.5)	(195,961)	(3.0)
Tax concession	-	-	(230,345)	(3.0)	(230,345)	(3.5)
Adjustments in respect of current tax of previous periods	-	-	(7,889)	(0.1)	(7,889)	(0.1)
Profits and losses attributable to joint ventures and associates	(12,506)	1.0	(255,171)	(3.3)	(267,677)	(4.1)
Income not subject to tax	(149,209)	12.2	(112,931)	(1.5)	(262,140)	(4.0)
Expenses not deductible for tax	349,338	(28.6)	139,649	1.8	488,987	7.5
Withholding tax of 5% on the distributable profit of the Group's PRC subsidiary and joint venture	-	-	13,326	0.2	13,326	0.2
Tax losses utilised from previous periods	-	-	(78,957)	(1.0)	(78,957)	(1.2)
Tax losses not recognised as deferred tax assets	28,553	(2.3)	28,286	0.3	56,839	0.7
Tax expense at the Group's effective tax rate	21,140	(1.7)	1,227,518	15.9	1,248,658	19.2

The share of tax attributable to associates and joint ventures amounting to HK\$47,551,000 (2020: HK\$93,875,000) and HK\$198,655,000 (2020: HK\$133,311,000), respectively, is included in "share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

12. CASH DIVIDEND/DISTRIBUTIONS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interim – HK9.0 cents (2020: HK8.4 cents) per ordinary share	908,982	841,780
Proposed final – HK6.7 cents (2020: HK7.8 cents) per ordinary share	679,100	781,856
	1,588,082	1,623,636

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to shareholders of the Company, adjusted to reflect the distribution related to the perpetual capital instrument, for the year ended 31 December 2021, and the weighted average number of 10,053,900,041 (2020: 10,021,261,445) ordinary shares in issue less the weighted average number of 41,392,772 (2020: 28,115,380) ordinary shares held under the share award scheme of the Company during the year.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(Continued)

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Earnings		
Profit for the year attributable to shareholders of the Company	4,195,940	4,183,466
Distribution related to the perpetual capital instrument	(48,563)	(29,597)
Profit used in the basic earnings per share calculation	4,147,377	4,153,869
Effect of dilution on earnings in respect of share options of an associate	–*	(2,946)
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	4,147,377	4,150,923
	2021	2020
Number of ordinary shares		
Weighted average number of ordinary shares in issue less the weighted average number of shares held under the share award scheme during the year, used in the basic earnings per share calculation	10,012,507,269	9,993,146,065
Effect of dilution on weighted average number of ordinary shares		
– Share options which have dilutive effect	58,751,632	77,603,573
– Share awards which have dilutive effect	2,016,699	13,102,049
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	10,073,275,600	10,083,851,687

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, and sewage and water pipelines <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2021							
At 1 January 2021:							
Cost	2,989,389	147,790	1,815,193	380,490	398,976	568,210	6,300,048
Accumulated depreciation	(636,548)	(77,131)	(480,259)	(203,844)	(202,037)	-	(1,599,819)
Net carrying amount	2,352,841	70,659	1,334,934	176,646	196,939	568,210	4,700,229
Net carrying amount:							
At 1 January 2021	2,352,841	70,659	1,334,934	176,646	196,939	568,210	4,700,229
Additions	55,376	2,391	87,264	41,431	31,565	20,054	238,081
Depreciation provided during the year	(123,223)	(15,467)	(109,634)	(40,729)	(45,178)	-	(334,231)
Disposal of subsidiaries (<i>note 46</i>)	-	-	-	(63)	(46)	-	(109)
Disposals	(60,098)	-	(2,925)	(15,222)	(4,503)	-	(82,748)
Reclassification from right-of-use assets	-	-	502,856	-	-	-	502,856
Transfers and reclassifications	-	-	1,120	81	159	(1,360)	-
Exchange realignment	63,996	4,279	47,084	2,462	2,152	6,413	126,386
At 31 December 2021	2,288,892	61,862	1,860,699	164,606	181,088	593,317	5,150,464
At 31 December 2021:							
Cost	2,962,324	153,746	2,507,633	398,091	418,703	593,317	7,033,814
Accumulated depreciation and impairment	(673,432)	(91,884)	(646,934)	(233,485)	(237,615)	-	(1,883,350)
Net carrying amount	2,288,892	61,862	1,860,699	164,606	181,088	593,317	5,150,464

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, and sewage and water pipelines <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2020							
At 1 January 2020:							
Cost	2,656,535	138,485	1,290,219	338,169	332,127	496,254	5,251,789
Accumulated depreciation	(437,327)	(61,082)	(278,817)	(157,152)	(151,338)	–	(1,085,716)
Net carrying amount	2,219,208	77,403	1,011,402	181,017	180,789	496,254	4,166,073
Net carrying amount:							
At 1 January 2020	2,219,208	77,403	1,011,402	181,017	180,789	496,254	4,166,073
Acquisition of subsidiaries <i>(note 45)</i>	4,742	–	–	1,397	2,008	–	8,147
Additions	171,429	1,159	421,561	42,535	63,513	60,499	760,696
Depreciation provided during the year	(118,945)	(11,868)	(140,638)	(37,468)	(51,924)	–	(360,843)
Disposal of subsidiaries <i>(note 46)</i>	(6,479)	–	(16,194)	(1,658)	(642)	–	(24,973)
Disposals	(13)	–	(3,950)	(11,227)	(7,259)	–	(22,449)
Impairment <i>(note a)</i>	(46,902)	–	(22,517)	(5,393)	–	–	(74,812)
Transfers and reclassifications	3,176	–	871	117	–	(4,164)	–
Exchange realignment	126,625	3,965	84,399	7,326	10,454	15,621	248,390
At 31 December 2020	2,352,841	70,659	1,334,934	176,646	196,939	568,210	4,700,229
At 31 December 2020:							
Cost	2,989,389	147,790	1,815,193	380,490	398,976	568,210	6,300,048
Accumulated depreciation and impairment	(636,548)	(77,131)	(480,259)	(203,844)	(202,037)	–	(1,599,819)
Net carrying amount	2,352,841	70,659	1,334,934	176,646	196,939	568,210	4,700,229

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

At 31 December 2021, certain land use rights and certain buildings situated in Mainland China with an aggregate carrying amount of HK\$969,182,000 (2020: HK\$1,135,862,000) were pledged to secure certain bank and other loans granted to the Group (note 35).

Note:

- (a) As at 31 December 2020, the Group had property, plant and equipment of HK\$97,993,000 relating to a loss-making non-wholly-owned subsidiary. As mentioned in note 4 to the financial statements, given the subsidiary was loss-making during the year, an impairment assessment has been performed by Beijing North Asia Asset Assessment Firm, independent professionally qualified valuers, based on fair value less costs of disposal using direct sales comparison and depreciated replacement cost approaches. As a result of the impairment assessment, an impairment loss of HK\$74,812,000 was recognised in profit or loss for certain items of property, plant and equipment because the production facilities, machinery and equipment were under-utilised during the year ended 31 December 2020.

15. INVESTMENT PROPERTIES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Carrying amount at 1 January	855,598	806,785
Fair value gain/(loss) on revaluation	(3,797)	745
Exchange realignment	20,821	48,068
Carrying amount at 31 December	872,622	855,598

Notes:

- (a) The Group's investment properties consist of a portion of an office building and a commercial building situated in Mainland China and are held under long term leases.
- (b) The investment properties are leased to third parties, and associates under operating lease arrangements, further summary of which are included in note 16 to the financial statements.
- (c) As at 31 December 2021, one of the Group's investment properties with a carrying amount of HK\$523,785,000 (2020: HK\$578,159,000) was pledged to a bank to secure a bank loan granted to the Group (note 35).

NOTES TO FINANCIAL STATEMENTS

31 December 2021

15. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

- (d) The Group's investment properties were revalued on 31 December 2021 and 2020 by Beijing North Asia Asset Assessment Firm, independent professionally qualified valuers, at HK\$872,622,000 (2020: HK\$855,598,000). Each year, management decides to appoint which external valuers to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Each year, management has discussions with the valuers on the valuation assumptions and valuation results.

The fair value of the Group's investment properties was measured using significant unobservable inputs (Level 3 of fair value hierarchy). During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2020: Nil).

Fair value hierarchy disclosure

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

	Office and commercial buildings HK\$'000
Carrying amount at 1 January 2020	806,785
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	745
Exchange realignment	48,068
Carrying amount at 31 December 2020 and 1 January 2021	855,598
Net loss from a fair value adjustment recognised in other income and gains in profit or loss	(3,797)
Exchange realignment	20,821
Carrying amount at 31 December 2021	872,622

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

Valuation technique	Significant unobservable inputs	Range	
		31 December 2021	31 December 2020
Income capitalisation method	Daily estimated rental value (per sq. m)	RMB4.65 to RMB16.39	RMB4.67 to RMB9.21
	Rent growth	2% from 2023	2% from 2022
	Discount rate	5.5%	6%
Direct comparison method	Market unit sale rate (per sq.m)	N/A	RMB56,366 to RMB107,065

NOTES TO FINANCIAL STATEMENTS

31 December 2021

15. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

(d) *(Continued)*

Fair value hierarchy disclosure *(Continued)*

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

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

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

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

16. LEASES

The Group as a lessee

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

Lease terms of different assets generally are as follows:

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

16. LEASES *(Continued)*

(a) Right-of-use assets

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

	Office building <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Leasehold land <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Machinery, sewage and water pipelines <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2020	77,901	312	160,161	6,092	509,820	754,286
Additions	12,315	37	54,469	873	–	67,694
Depreciation charge	(20,616)	(122)	(21,414)	(3,114)	(36,761)	(82,027)
Exchange realignment	5,344	16	11,502	407	29,797	47,066
As at 31 December 2020 and 1 January 2021	74,944	243	204,718	4,258	502,856	787,019
Reclassification to property, plant and equipment	–	–	–	–	(502,856)	(502,856)
Additions	8,238	117	311,502	2,812	–	322,669
Depreciation charge	(19,662)	(184)	(21,697)	(3,447)	–	(44,990)
Exchange realignment	(2,836)	(9)	8,527	(110)	–	5,572
As at 31 December 2021	60,684	167	503,050	3,513	–	567,414

(b) Lease liabilities

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Carrying amount at 1 January	408,924	523,343
Reclassification to other loans	(264,748)	–
New leases	11,167	13,225
Accretion of interest recognised during the year	6,426	19,655
Payments	(34,326)	(171,499)
Exchange realignment	(1,680)	24,200
Carrying amount at 31 December	125,763	408,924
Analysed into:		
Current portion	17,495	108,780
Non-current portion	108,268	300,144

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

16. LEASES *(Continued)*

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on lease liabilities	6,426	19,655
Depreciation charge of right-of-use assets	44,990	82,027
Expense relating to short-term leases (included in administrative expenses)	2,449	2,989
Total amount recognised in profit or loss	53,865	104,671

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

The Group as a lessor

The Group leases its investment properties (note 15) consisting of certain floors and portion of its office building and a commercial building in the PRC under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was HK\$28,202,000 (2020: HK\$26,982,000), details of which are included in note 6 to the financial statements.

At 31 December 2021, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within one year	5,029	23,470
In the second to fifth years, inclusive	1,990	4,333
	7,019	27,803

NOTES TO FINANCIAL STATEMENTS

31 December 2021

17. GOODWILL

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	4,183,392	4,032,698
Acquisition of subsidiaries (<i>note 45</i>)	–	32,784
Disposal of subsidiaries (<i>note 46</i>)	–	(9,856)
Exchange realignment	30,337	127,766
At 31 December	4,213,729	4,183,392

Impairment testing of goodwill

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Sewage and reclaimed water treatment and construction services segment	2,016,041	2,008,758
Water distribution services segment	1,002,864	997,273
Technical and consultancy services and sale of machineries segment	1,194,824	1,177,361
	4,213,729	4,183,392

NOTES TO FINANCIAL STATEMENTS

31 December 2021

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

The recoverable amounts of the relevant business units in each of the above operating segments have been determined by reference to business valuations performed by Valtech Valuation Advisory Limited (2020: Valtech Valuation Advisory Limited), independent professionally qualified valuers, based on fair value less costs of disposal using cash flow projections which are based on financial forecasts approved by senior management covering a period of 10 years and based on the assumption that the sizes of the operations remain constant perpetually. The post-tax discount rates applied to the cash flow projections ranged from 9.1% to 11.0% (2020: 9.1% to 11.50%) for the business units of the sewage and reclaimed water treatment and construction services segment, the water distribution services segment, and the technical and consultancy services and sale of machineries segment, which are determined by reference to the average rates for similar industries and the business risks of the relevant business units. A growth rate of 1% to 2.5% (2020: 2.5%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors of the Company, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2021 (2020: Nil).

Key assumptions used in estimations of the recoverable amounts

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

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

- Discount rates
 - The discount rates used are pre-tax and reflect specific risks of the respective segments.
 - The pre-tax discount rates applied in the cash flow projections ranged from 11.13% to 14.64% (2020: 11.22% to 14.77%) for the business units of the sewage and reclaimed water treatment and construction services segment, the water distribution services segment, and the technical and consultancy services and sale of machineries segment.
- Business environment
 - There have been no major changes in the existing political, legal and economic conditions in Mainland China, Singapore, Portugal, Australia and New Zealand.

18. SERVICE CONCESSION ARRANGEMENTS

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

A summary of the major terms of the principal service concession arrangements as at 31 December 2021 is as follows:

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries:							
1.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠一期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	TOT on sewage treatment	100,000	30 years from 2002 to 2032
2.	廣州中業污水處理有限公司	廣州市花都區新華污水處理廠一期	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT on sewage treatment	100,000	25 years from 2008 to 2033
3.	深圳北控創新投資有限公司	深圳市龍崗區橫嶺污水處理廠二期	Shenzhen, Guangdong Province, the PRC	深圳市水務局	TOT on sewage treatment	400,000	20 years from 2011 to 2031
4.	深圳北控豐泰投資有限公司	深圳市龍崗區橫嶺污水處理廠一期	Shenzhen, Guangdong Province, the PRC	深圳市龍崗區人民政府	BOT on sewage treatment	200,000	25 years from 2003 to 2028
5.	成都青白江中科成污水淨化有限公司	成都市青白江區污水處理廠	Chengdu, Sichuan Province, the PRC	成都市青白江區人民政府	TOT on sewage treatment	100,000	25 years from 2009 to 2034
6.	錦州市北控水務有限公司	錦州市一期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	TOT on sewage treatment	100,000	30 years from 2009 to 2039
7.	錦州市北控水務有限公司	錦州市二期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	BOT on sewage treatment	100,000	30 years from 2011 to 2041
8.	錦州市小凌河北控水務有限公司	錦州市三期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市人民政府	TOT on sewage treatment	100,000	30 years from 2015 to 2045
9.	玉溪北控城投水質淨化有限公司	玉溪市污水處理廠	Yuxi, Yunnan Province, the PRC	玉溪市住房和城鄉建設局	TOT on sewage treatment	100,000	30 years from 2010 to 2040
10.	廣西貴港北控水務有限公司	貴港市城西污水處理廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on sewage treatment	100,000	30 years from 2008 to 2038
11.	廣西貴港北控水務有限公司	南江水廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on water distribution	100,000	30 years from 2008 to 2038
12.	遵義北控水務有限公司	遵義市青山供水廠	Zunyi, Guizhou Province, the PRC	遵義市供排水有限責任公司	BOT on water distribution	100,000	25 years from 2010 to 2035
13.	衡陽市海朗水務有限公司	衡陽市珠暉自來水制水廠	Hengyang, Hunan Province, the PRC	衡陽市建設局	BOT on water distribution	200,000	30 years (Not yet started)

NOTES TO FINANCIAL STATEMENTS

31 December 2021

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
14.	廣安北控廣和水務有限公司	廣安新橋園區供水廠(一期)	Guangan, Sichuan Province, the PRC	廣安市人民政府	BOT on water distribution	100,000	30 years from 2015 to 2045
15.	廣安北控廣和水務有限公司	廣安新橋園區供水廠(二期)	Guangan, Sichuan Province, the PRC	廣安市人民政府	BOT on water distribution	100,000	30 years (Not yet started)
16.	昆明空港北控城投水質淨化有限公司	昆明空港經濟區污水處理廠(二期)	Kunming, Yunnan Province, the PRC	昆明市人民政府	BOT on sewage treatment	130,000	20 years (Not yet started)
17.	成都北控蜀都投資有限公司	成都合作污水處理廠	Chengdu, Sichuan Province, the PRC	成都市郫縣水務局	TOT on sewage treatment	100,000	25 years from 2012 to 2037
18.	東莞市德高水務有限公司	東莞市橫瀝東坑合建污水處理廠	Dongguan, Guangdong Province, the PRC	高埗鎮人民政府	BOT on sewage treatment	120,000	25 years from 2008 to 2033
19.	北控水務集團(海南)有限公司	白沙門污水處理廠	Haikou, Hainan Province, the PRC	海口市水務局	BOT on sewage treatment	200,000	25 years from 2010 to 2035
20.	德清達闊制水有限公司	德清縣乾元淨水廠項目	Deqing, Zhejiang Province, the PRC	德清縣建設局	BOT on water distribution	100,000	25 years from 2007 to 2032
21.	北控(鞍山)水務有限公司	鞍山市永寧污水處理廠項目	Anshan, Liaoning Province, the PRC	鞍山市環境保護局	BOT on sewage treatment	100,000	30 years from 2015 to 2045
22.	阜新市北控水務有限公司	遼寧省阜新市開發區污水處理廠項目	Fuxin, Liaoning Province, the PRC	阜新市人民政府	TOT on sewage treatment	100,000	30 years from 2015 to 2045
23.	北控(洛陽)水務發展有限公司	澗西污水處理廠項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045
24.	北控(洛陽)水務發展有限公司	瀘東污水處理廠項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045
25.	北控(洛陽)水務發展有限公司	新區污水處理廠項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	100,000	30 years from 2015 to 2045
26.	廣東鶴山北控水務有限公司	鶴山市沙坪鎮第二供水廠項目	Jiangmen, Guangdong Province, the PRC	鶴山市人民政府	BOT on water distribution	195,000	30 years from 2015 to 2045

NOTES TO FINANCIAL STATEMENTS

31 December 2021

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
27.	北控(濟源)污水淨化有限公司	濟源市城市污水廠	Jiyuan, Henan Province, the PRC	濟源市住房和城鄉建設局	TOT on sewage treatment	100,000	30 years from 2016 to 2046
28.	永州市水務運營有限責任公司	永州曲河供水廠一期	Yongzhou, Hunan Province, the PRC	永州市城市管理行政執法局	TOT on water distribution	100,000	30 years from 2016 to 2046
29.	凱里北控清源水務有限公司	凱里市城鎮供排水項目	Kaili, Guizhou Province, the PRC	凱里水務局	TOT on water distribution	144,000	30 years from 2016 to 2046
30.	棗莊北控智信水務有限公司	棗莊市區供水廠	Zaozhuang City, Shandong Province, the PRC	棗莊市人民政府	BOT on water distribution	110,000	30 years from 2013 to 2043
31.	南安實康水務有限公司	福建南安供水廠一期	Nanan, Fujian Province, the PRC	福建南安市人民政府	TOT on water distribution	170,000	30 years from 2013 to 2043
32.	山東昌樂實康水業有限公司	山東昌樂供水廠	Changle, Shandong Province, the PRC	山東省昌樂人民政府	TOT on water distribution	100,000	30 years from 2013 to 2043
33.	昌樂實康原水有限公司	山東昌樂原水廠	Changle, Shandong Province, the PRC	山東省昌樂人民政府	BOT on water distribution	100,000	30 years from 2013 to 2043
34.	南京城東北控污水處理有限公司	南京市城東污水處理廠一期	Nanjing, Jiangsu Province, the PRC	南京市城鄉建設委員會	TOT on sewage treatment	100,000	30 years from 2015 to 2045
35.	南京城東北控污水處理有限公司	南京市城東污水處理廠二期	Nanjing, Jiangsu Province, the PRC	南京市城鄉建設委員會	TOT on sewage treatment	100,000	30 years from 2015 to 2045
36.	常德北控碧海水務有限責任公司	常德柳葉湖污水廠	Changde City, Hunan Province, the PRC	常德市市政公用事業管理局	TOT on sewage treatment	100,000	15 years from 2016 to 2031
37.	BEWGI- UE NEWater (S) Pte. Ltd.	新加坡樟宜第二新生水廠	Singapore	新加坡公用事業局	DBO on water recycling	228,000	25 years from 2014 to 2039
38.	延吉京城環保產業有限公司	延吉污水處理廠一期	Yanji City, Jilin Province, the PRC	延吉市人民政府	TOT on sewage treatment	100,000	30 years from 2014 to 2044
39.	永州市北控污水淨化有限公司	永州市冷水灘區下河綫污水處理廠	Yongzhou, Hunan Province, the PRC	湖南省永州市公用事業管理局	BOT on sewage treatment	100,000	30 years from 2008 to 2038

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18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
40.	厚街海清污水處理有限公司	厚街沙塘污水處理廠	Dongguan, Guangdong Province, the PRC	厚街鎮人民政府	BOT on sewage treatment	100,000	25 years from 2009 to 2033
41.	北控(洛陽)水務發展有限公司	新區污水處理廠二期	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	100,000	30 years from 2015 to 2045
42.	內蒙古泰弘生態環境發展股份有限公司	包頭市大青山生態應急水源工程	Baotou, Inner Mongolia, the PRC	包頭市人民政府	BOT on water supply	190,000	30 years from 2012 to 2042
43.	Macarthur Water Pty Ltd.	Macarthur	Sydney, Australia	Sydney Water	BOT on water supply	265,000	35 years from 1995 to 2030
44.	北控(洛陽)水務發展有限公司	澗西污水處理廠二期擴建工程	Luoyang, Henan Province, the PRC	洛陽市水務局	BOT on sewage treatment	100,000	30 years from 2015 to 2045
45.	永州水務向家亭水質淨化有限公司	向家亭污水處理廠提標改造工程	Yongzhou, Hunan Province, the PRC	永州市城市管理行政執法局	BOT on sewage treatment	100,000	27 years from 2019 to 2045
46.	湖南北控水務發展有限公司	長沙市敢勝垵污水處理廠及配套工程一期	Changsha, Hunan Province, the PRC	長沙市住房和城鄉建設委員會	TOT on sewage treatment	100,000	26 years from 2019 to 2045
47.	台州市黃岩北控污水處理有限公司	黃岩江口污水處理廠改擴建項目	Taizhou, Zhejiang Province, the PRC	台州市黃岩區住房和城鄉建設局	BOT on sewage treatment	120,000	21 years from 2018 to 2039
48.	洛陽北控原水有限公司	洛陽市故縣水庫引水工程	Luoyang, Henan Province, the PRC	洛陽市水務局	BOT on water supply	432,000	50 years from 2021 to 2069
49.	廣州增城北控水處理有限公司	廣東增城區中心城區污水處理系統工程一期	Guangzhou, Guangdong Province, the PRC	廣州市增城區水務設施管理師	BOT on sewage treatment	150,000	27 years from 2021 to 2048
50.	赤峰北控三座店供水有限公司	內蒙赤峰三座店水利樞紐中心城區引供水工程	Chifeng, Inner Mongolia, the PRC	赤峰市水利局	BOT on water supply	122,320	23 years from 2020 to 2043
51.	成都龍泉北控水務有限公司	陡溝河污水處理廠二廠	Chengdu, Sichuan Province, the PRC	成都市龍泉驛區水務局	BOT on sewage treatment	100,000	28 years from 2021 to 2048
52.	湖南北控水務發展有限公司	蘇托垵污水處理廠	Changsha, Hunan Province, the PRC	長沙市住房和城鄉建設委員會	BOT on sewage treatment	100,000	26 years from 2021 to 2045

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18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
53.	青島中科成污水淨化有限公司	膠州污水處理廠三期	Jiaozhou, Shandong Province, the PRC	膠州市城鄉建設局	BOT on sewage treatment	100,000	30 years from 2020 to 2050
54.	北控(洛陽)水務發展有限公司	洛陽市新區污水處理廠二期	Luoyang, Henan Province, the PRC	洛陽市水務局	BOT on sewage treatment	100,000	30 years from 2020 to 2050
Joint ventures:							
55.	伊犁北控水務有限公司	伊寧市城市地表水供水項目	Yining, Xinjiang Uyghur Autonomous Region, the PRC	伊寧市水務局	BOT on water supply	200,000	30 years from 2019 to 2049
56.	大慶市北控水務有限公司	大慶市光明污水處理廠	Daqing, Heilongjiang Province, the PRC	大慶市城市管理委員會	BOT on sewage treatment	165,000	30 years from 2019 to 2049
57.	貴陽北控水務有限責任公司("Guiyang BEWG")	貴陽市城市供水廠	Guiyang, Guizhou Province, the PRC	貴陽市城市管理局	BOT on water distribution	1,000,000	30 years from 2011 to 2041
58.	海寧實康水務有限公司	浙江海寧供水廠	Haining, Zhejiang Province, the PRC	浙江海寧市人民政府	TOT on water distribution	300,000	30 years from 2013 to 2043
59.	朝陽市北控水務有限公司	朝陽淨源污水處理廠	Chaoyang City, Liaoning Province, the PRC	朝陽市人民政府國有資產監督管理委員會	TOT on sewage treatment	100,000	30 years from 2016 to 2046
60.	邢臺北控水務有限公司	河北邢臺召馬地表水廠第一期	Xingtai, Hebei Province, the PRC	邢臺市水務局	BOT on water supply	150,000	30 years from 2017 to 2047

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

Pursuant to the service concession agreements entered into by the Group, the Group is granted the rights to use the property, plant and equipment of the Facilities and the related land, which are generally registered under the names of the relevant companies in the Group, during the service concession periods, but the Group is generally required to surrender these assets to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods. As at 31 December 2021, the Group was in the process of applying for the change of registration of the title certificates with respect to certain land use rights and buildings of certain Facilities to which the Group's service concession arrangements relate. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of these buildings and land to which the above-mentioned land use rights relate, and that the Group would not have any legal barriers in obtaining the proper title certificates.

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31 December 2021

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

At 31 December 2021, certain sewage treatment and water distribution concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) with an aggregate carrying amount of HK\$33,971,243,000 (2020: HK\$16,235,944,000) were pledged to secure certain bank loans granted to the Group (note 35).

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

Operating concessions

	2021 HK\$'000	2020 HK\$'000
At 1 January:		
Cost	6,938,581	6,241,427
Accumulated amortisation	(1,382,216)	(1,379,070)
Net carrying amount	5,556,365	4,862,357
Net carrying amount:		
At 1 January	5,556,365	4,862,357
Additions	4,922,694	753,961
Amortisation provided during the year <i>(note 7)</i>	(465,062)	(214,821)
Disposal of subsidiaries <i>(note 46)</i>	–	(209,796)
Exchange realignment	111,377	364,664
At 31 December	10,125,374	5,556,365
At 31 December:		
Cost	11,992,040	6,938,581
Accumulated amortisation	(1,866,666)	(1,382,216)
Net carrying amount	10,125,374	5,556,365

NOTES TO FINANCIAL STATEMENTS

31 December 2021

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Receivables under service concession arrangements	59,002,929	46,076,812
Impairment <i>(note (b))</i>	(262,075)	(247,111)
	58,740,854	45,829,701
Portion classified as current assets	(5,522,723)	(4,131,424)
	53,218,131	41,698,277

Notes:

- (a) In respect of the Group's receivables under service concession arrangements, the various group companies have different credit policies, depending on the requirements of the locations in which they operate. Ageing analyses of receivables under service concession arrangements are regularly reviewed by senior management in order to minimise any credit risk arising from the receivables.

An ageing analysis of the Group's receivables under service concession arrangements as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Billed:		
Within 3 months	2,248,972	1,813,299
4 to 6 months	1,471,753	962,064
7 to 12 months	935,770	584,949
Over 1 year	866,228	771,112
	5,522,723	4,131,424
Unbilled:		
Non-current portion*	53,218,131	41,698,277
Total	58,740,854	45,829,701

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: *(Continued)*

- (b) The movements in the loss allowance for impairment of the Group's receivables under service concession arrangements during the year are as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At 1 January	247,111	207,774
Impairment losses, net	14,964	74,099
Disposal of a subsidiary	–	(29,876)
Exchange realignment	–	(4,886)
At 31 December	262,075	247,111

The increase (2020: increase) in the loss allowance was due to the significant changes in the gross carrying amount of the receivables under service concession arrangements mainly attributable to the acquisition of TOT projects and commencement of operations of BOT projects.

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2021, the probability of default applied ranged from 0.06% to 3.51% (2020: 0.05% to 3.93%), and the loss given default was estimated to be ranged from 54.67% to 64.87% (2020: 54.16% to 64.87%).

NOTES TO FINANCIAL STATEMENTS

31 December 2021

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

Notes: *(Continued)*

(b) *(Continued)*

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

As at 31 December 2021

	Stage 1 Collective <i>HK\$'000</i>	Stage 2 Collective <i>HK\$'000</i>	Stage 3 Collective <i>HK\$'000</i>	Purchased or originated credit-impaired ("POCI") <i>HK\$'000</i>	Total <i>HK\$'000</i>
ECL allowance as at 1 January 2021	8,881	238,230	–	–	247,111
New assets originated	10,359	1,565	–	–	11,924
Repaid (excluding write-offs)	(8,090)	(1,294)	–	–	(9,384)
Loss allowance recognised	(145)	12,569	–	–	12,424
At 31 December 2021	11,005	251,070	–	–	262,075

As at 31 December 2020

	Stage 1 Collective <i>HK\$'000</i>	Stage 2 Collective <i>HK\$'000</i>	Stage 3 Collective <i>HK\$'000</i>	Purchased or originated credit-impaired ("POCI") <i>HK\$'000</i>	Total <i>HK\$'000</i>
ECL allowance as at 1 January 2020	13,459	194,315	–	–	207,774
New assets originated	7,581	7,710	–	–	15,291
Repaid (excluding write-offs)	(14,053)	(1,479)	–	–	(15,532)
Disposal of subsidiaries	–	(35,550)	–	–	(35,550)
Transfers to Stage 2	3	(3)	–	–	–
Loss allowance recognised	2,208	77,806	–	–	80,014
Exchange realignment	(317)	(4,569)	–	–	(4,886)
At 31 December 2020	8,881	238,230	–	–	247,111

NOTES TO FINANCIAL STATEMENTS

31 December 2021

19. OTHER INTANGIBLE ASSETS

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

19. OTHER INTANGIBLE ASSETS *(Continued)*

	Patents <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2020			
At 1 January 2020:			
Cost	6,642	307,575	314,217
Accumulated amortisation	(2,140)	(64,564)	(66,704)
Net carrying amount	4,502	243,011	247,513
Net carrying amount:			
At 1 January 2020	4,502	243,011	247,513
Acquisition of subsidiaries <i>(note 45)</i>	–	312	312
Additions	3,372	117,325	120,697
Disposal	–	(3)	(3)
Disposal of subsidiaries <i>(note 46)</i>	–	(9)	(9)
Amortisation provided during the year	(466)	(30,608)	(31,074)
Exchange realignment	441	21,051	21,492
At 31 December 2020	7,849	351,079	358,928
At 31 December 2020:			
Cost	10,610	450,071	460,681
Accumulated amortisation	(2,761)	(98,992)	(101,753)
Net carrying amount	7,849	351,079	358,928

NOTES TO FINANCIAL STATEMENTS

31 December 2021

20. INVESTMENTS IN JOINT VENTURES

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Investments in joint ventures, included in non-current assets:			
Share of net assets		10,462,262	9,477,488
Goodwill on acquisition	<i>(c)</i>	499,292	491,464
		10,961,554	9,968,952
Due from joint ventures, included in current assets	<i>(d), 27</i>	1,556,305	657,200
Due to joint ventures, included in current liabilities	<i>(d), 42</i>	(1,401,678)	(2,124,076)
Total interests in joint ventures		11,116,181	8,502,076

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

Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Percentage of			Principal activities
			Ownership interest attributable to the Group	Voting power	Profit sharing	
Guiyang BEWG**	PRC/Mainland China	RMB1,456,162,145/ RMB1,456,162,145	45	45	45	Water distribution
洛陽北控水務集團有限公司 ("Luoyang BEWG")*	PRC/Mainland China	RMB200,000,000/ RMB200,000,000	40	40	40	Water distribution, reclaimed water treatment and heating services
天津市華博水務有限公司 ("Tianjin Huabo")*	PRC/Mainland China	RMB588,235,294/ RMB588,235,294	49	49	49	Sewage treatment and construction services
北控南南君悅(天津)投資合夥企業 (有限合夥)*	PRC/Mainland China	RMB628,000,000/ RMB628,000,000	6.5	(a)	(a)	Fund investment
北京北控國壽投資基金管理中心 (有限合夥)*	PRC/Mainland China	RMB3,366,680,000/ RMB24,002,400,000	-	(b)	(b)	Fund investment

Directly held by the Company

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

20. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes:

- (a) In 2017, the Group (as deferred limited partner) entered into a limited partnership agreement (the “Junyue Partnership Agreement”) with an investment management company (as preferential limited partner), and a joint venture investor (also as deferred limited partner) in relation to the establishment and management of a fund (the “Junyue Fund”). The Junyue Fund shall focus on investing in water and water environmental comprehensive projects in certain cities in Mainland China.

Pursuant to the Junyue Partnership Agreement, the capital commitment of the Junyue Fund is approximately RMB3.1 billion. As at 31 December 2021, the total investment contributed by the preferential limited partner and the Group as a deferred limited partner in the Junyue Fund amounted to RMB545 million (2020: RMB500 million) and RMB83 million (2020: RMB83 million), respectively. During the year, according to the resolution approved by all the partners, the registered capital of Junyue Fund has been revised from RMB3.1 billion to RMB628 million.

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

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

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

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

Pursuant to the China Life Partnership Agreement, the aggregate capital commitment of the master fund was approximately RMB24 billion. As at 31 December 2021, the total investment contributed by China Life in the master fund amounted to approximately RMB3,364 million (2020: RMB2,711 million). The intermediate and deferred limited partners are not required to contribute the capital unless and until the general partner may issue a written notice to them to seek the relevant capital contribution pursuant to the China Life Partnership Agreement. No capital was contributed by the intermediate and deferred limited partners and all the capital in the master fund has been invested to four subordinated funds as at 31 December 2021 and 2020.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

20. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	491,464	473,435
Exchange realignment	7,828	18,029
At 31 December	499,292	491,464

(d) (i) Included in the amounts due from joint ventures of the Group as at 31 December 2021 was an advance to a joint venture of US\$26,390,000 (equivalent to HK\$205,842,000) (2020: US\$26,390,000 (equivalent to HK\$204,523,000)). The amount is unsecured, bearing floating interest at LIBOR plus 1.5% (2020: 2.8%) per annum, and is repayable on demand. Interest income of HK\$4,731,000 (2020: HK\$7,784,000) was recognised in profit or loss during the year ended 31 December 2021.

(ii) Other than the above balances and those mentioned in note 6, the amounts due from/to joint ventures included in current assets and current liabilities of the Group as at 31 December 2021 and 2020 are unsecured, interest-free and are repayable on demand. There were no recent history of default and past due amounts for the amounts due from joint ventures. As at 31 December 2021 and 2020, the loss allowance was assessed to be minimal.

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Share of the joint ventures' profits and losses for the year	861,712	729,681
Share of the joint ventures' total comprehensive income for the year	867,069	731,731
Aggregate carrying amount of the Group's investments in the joint ventures	10,961,554	9,968,952

NOTES TO FINANCIAL STATEMENTS

31 December 2021

21. INVESTMENTS IN ASSOCIATES

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
Investments in associates, included in non-current assets:			
Share of net assets		5,863,502	5,690,774
Goodwill on acquisition	<i>(d)</i>	672,337	670,699
	<i>(e)</i>	6,535,839	6,361,473
Due from associates, included in current assets	<i>(b), 27</i>	859,000	78,907
Due to associates, excluding trade payables, included in current liabilities	<i>(b), 42</i>	(69,768)	(60,738)
Total investments in associates		7,325,071	6,379,642

Notes:

(a) Particulars of the Group's interests in the major associates are as follows:

Company name	Place of incorporation	Issued capital/ paid-up capital	Percentage of				Principal activities
			Ownership interest attributable to the Group	Voting power	Profit sharing		
Beijing Enterprises Clean Energy Group Limited*	Cayman Islands	HK\$63,525,397	31.88	31.88	31.88	Management of photovoltaic power business, wind power business, and clean heat supply business	
Beijing Enterprises Urban Resources Group Limited*	Cayman Islands	HK\$3,600,000,000	28.04	28.04	28.04	Provision of environmental hygiene services, hazardous waste treatment services and others	
長沙威保特環保科技股份有限公司*	PRC/Mainland China	RMB242,680,000/ RMB242,680,000	40.0	40.0	40.0	Provision of environmental hygiene services, sewage treatment services and others	
金科環境股份有限公司*	PRC/Mainland China	RMB102,760,000/ RMB102,760,000	17.15	17.15	17.15	Provision of environmental protection services, sewage treatment service and others	

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

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21. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

- (b) (i) Included in the amounts due from associates of the Group as at 31 December 2021 were advances to an associate of RMB200,000,000 (equivalent to HK\$243,902,000) (2020: Nil) bearing interest at 8% per annum and repayable on demand; and RMB500,000,000 (equivalent to HK\$609,756,000) (2020: Nil) bearing interest at 8% per annum and repayable in 2022. Interest income of totalling HK\$5,033,000 (2020: Nil) was recognised in profit or loss during the year ended 31 December 2021.
- (ii) Other than the above balances and those mentioned in note 6, the amounts due from/to associates included in current assets and current liabilities of the Group as at 31 December 2021 and 2020 are unsecured, interest-free and are repayable on demand. There were no recent history of default and past due amounts for the amounts due from associate. As at 31 December 2021 and 2020, the loss allowance was assessed to be minimal.
- (c) The Group's trade payable balance with an associate is included in trade payables and disclosed in note 41 to the financial statements.
- (d) The movements in the goodwill included in the investments in associates during the year are as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	670,699	663,063
Exchange realignment	1,638	7,636
At 31 December	672,337	670,699

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Share of the associates' profits and losses for the year	58,069	330,781
Share of the associates' total comprehensive income	225,488	863,959
Aggregate carrying amount of the Group's investments in associates	6,535,839	6,361,473

NOTES TO FINANCIAL STATEMENTS

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22. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 HK\$'000	2020 HK\$'000
Asset-backed note, at fair value	52,268	68,036

Notes:

- (a) The above asset-backed note was backed by guarantee receipts of certain sewage water plants in the PRC and will mature on 25 April 2024. It was mandatorily classified as a financial asset at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.
- (b) The fair values of the asset-backed note have been estimated on 31 December 2021 and 2020 by Valtech Valuation Advisory Limited, using a Monte Carlo simulation valuation technique based on the estimates on default rate and recovery rate of the industry adjusted to reflect the specific circumstances of the investments. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period. During the years ended 31 December 2021 and 2020, the related changes in fair value were not significant to the Group.

The fair value of the Group's the asset-backed note was measured using significant unobservable inputs (Level 3 of fair value hierarchy). During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 (2020: Nil).

Set out below is a summary of the valuation technique used and the key inputs to the valuation of financial asset at fair value through profit or loss together with a quantitative sensitivity analysis as at 31 December 2021 and 2020:

Valuation technique	Significant unobservable input	Sensitivity of fair value to the input
Monte Carlo simulation	Default rate	2021: 0.33% (2020: 0.29%) 5% increase/decrease in default rate would result in decrease in fair value by HK\$14,000 (2020: HK\$26,000)/ increase in fair value by HK\$13,000 (2020: HK\$27,000)
	Recovery rate	2021: 35.13% (2020: 35.13%) 5% increase/decrease in recovery rate would result in increase in fair value by HK\$8,000 (2020: HK\$14,000)/decrease in fair value by HK\$12,000 (2020: HK\$13,000)

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

Notes: (Continued)

(b) *(Continued)*

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

	<i>HK\$'000</i>
At 1 January 2020	80,258
Redemption for the year	(16,045)
Exchange realignment	3,823
At 31 December 2020 and 1 January 2021	68,036
Redemption for the year	(17,427)
Exchange realignment	1,659
At 31 December 2021	52,268

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value	619,512	880,910
Unlisted equity investments, at fair value	551,916	529,989
	1,171,428	1,410,899

- (a) The above equity investments were irrevocably designated as equity instruments at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.
- (b) The fair values of equity investments designated at fair value through other comprehensive income have been estimated using the market approach by reference to the quoted market price and were classified as Level 2 in the fair value hierarchy.

The fair values of the remaining equity investments designated at fair value through other comprehensive income have been estimated on 31 December 2021 and 2020 by Beijing North Asia Asset Assessment Firm, using the market approach and were classified as Level 3 in the fair value hierarchy. The directors determine comparable public companies (peers) based on industry, size and leverage, and calculate an appropriate price multiple, such as enterprise value to earnings before interest and taxes (“EV/EBIT”) and the price to book value (“P/B”) multiple (2020: EV/EBIT and P/B multiple), for each comparable company identified. The multiple is then discounted for considerations such as illiquidity based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding net assets of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

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

(b) *(Continued)*

Set out below is a summary of the valuation technique used and the key inputs to the valuation of equity investments designated at fair value through other comprehensive income together with a quantitative sensitivity analysis as at 31 December 2021 and 2020:

Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Valuation multiples	Average P/B multiple of peers	2021: 0.7x to 3.2x (2020: 0.9x to 4.2x)	5% increase/decrease in multiple would result in increase/decrease in fair value by HK\$6,664,000 (2020: HK\$7,447,000)
	Average EV/EBIT multiple of peers	2021: 11.9x to 51.4x (2020: 10.7x to 43.8x)	5% increase/decrease in multiple would result in increase/decrease in fair value by HK\$8,219,000 (2020: HK\$6,857,000)
	Discount for lack of marketability	2021: 8.2% to 27.6% (2020: 19.3% to 38.9%)	5% increase/decrease in discount would result in decrease/increase in fair value by HK\$2,635,000 (2020: HK\$4,597,000)

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

(c) Fair value hierarchy

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

	<i>HK\$'000</i>
At 1 January 2020	421,052
Additions	42,037
Disposals	(4,963)
Exchange realignment	9,584
At 31 December 2020 and 1 January 2021	467,710
Additions	18,556
Disposals	(979)
Exchange realignment	4,349
At 31 December 2021	489,636

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2020: Nil).

24. INVENTORIES

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	239,991	230,871

NOTES TO FINANCIAL STATEMENTS

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25. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Contract costs arising from construction services provided plus recognised profits less recognised losses to date	40,199,827	45,548,411
Impairment (<i>note</i>)	(145,608)	(142,542)
	40,054,219	45,405,869
Portion classified as current assets	(3,798,733)	(3,091,651)
	36,255,486	42,314,218

Amounts due from contract customers are initially recognised for revenue earned from the construction services as the receipt of consideration is conditional on successful completion of construction. Upon completion of construction and acceptance by the customer, the amounts recognised as amounts due from contract customers are reclassified to contract assets included in receivables under service concession arrangements and operating concession for BOT arrangements and trade receivables for other construction contracts when the rights to considerations are unconditional. The decrease in amounts due from contract customers in 2021 was the result of completion of certain comprehensive renovation projects during the year, the related amounts due from contract customers were transferred to trade receivables upon completion. During the year ended 31 December 2021, HK\$3.1 million (2020: reversal of an allowance of HK\$9.3 million) was recognised as an allowance for expected credit losses on amounts due from contract customers. The Group's trading terms and credit policy with customers are disclosed in notes 18 and 26 to the financial statements, respectively.

As at 31 December 2021, amounts due from contract customers of HK\$40,599,000 (2020: HK\$112,203,000) were designated as a charge for the repayment of corporate bonds, details of which are disclosed in note 36 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At 1 January	142,542	151,797
Impairment losses/(reversal of impairment losses), net	3,066	(9,255)
At 31 December	145,608	142,542

No material changes in loss allowance for the year ended 31 December 2021 (2020: decrease in loss allowance was due to significant changes in the gross carrying amount of the amount due from contract customers as a result of the completion of certain comprehensive renovation projects in 2020).

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2021, the probability of default applied ranged from 0.06% to 0.79% (2020: 0.05% to 0.79%) and the loss given default was estimated to range from 54.67% to 64.87 % (2020: 54.16% to 64.87%)

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

Set out below is the information about the credit risk exposure of the Group's amounts due from contract customers using the probability of default approach:

	Stage 1 Collective HK\$'000	Stage 2 Collective HK\$'000	Stage 3 Collective HK\$'000	POCI HK\$'000	Total HK\$'000
As at 31 December 2021					
ECL allowance as at 1 January 2021	13,327	129,215	–	–	142,542
New assets originated	810	–	–	–	810
Repaid (excluding write-offs)	(7,684)	–	–	–	(7,684)
Loss allowance recognised	8,989	951	–	–	9,940
At 31 December 2021	15,442	130,166	–	–	145,608
	Stage 1 Collective HK\$'000	Stage 2 Collective HK\$'000	Stage 3 Collective HK\$'000	POCI HK\$'000	Total HK\$'000
As at 31 December 2020					
ECL allowance as at 1 January 2020	20,563	131,234	–	–	151,797
New assets originated	1,942	–	–	–	1,942
Repaid (excluding write-offs)	(5,575)	–	–	–	(5,575)
Reversal of loss allowance	(3,603)	(2,019)	–	–	(5,622)
At 31 December 2020	13,327	129,215	–	–	142,542

NOTES TO FINANCIAL STATEMENTS

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26. TRADE RECEIVABLES

	2021 HK\$'000	2020 HK\$'000
Trade receivables	21,225,699	21,463,964
Impairment (<i>note (c)</i>)	(378,740)	(231,779)
	20,846,959	21,232,185
Portion classified as current assets	(8,890,896)	(8,955,073)
	11,956,063	12,277,112

Notes:

- (a) The Group's trade receivables arise from the provision of construction services for comprehensive renovation projects, water distribution services on the Build-Own-Operate basis, technical and consultancy services and sale of machineries. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, who will settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade receivables of certain construction services for comprehensive renovation projects which bear interest at rates ranging from 4.8% to 15.0% (2020: 4.8% to 15.0%) per annum, all other trade receivables are non-interest-bearing.

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

	2021 HK\$'000	2020 HK\$'000
Billed:		
Within 3 months	3,621,667	4,782,471
4 to 6 months	1,263,653	787,440
7 to 12 months	1,588,437	526,606
Over 1 year	2,417,139	2,858,556
Balance with an extended credit period	36,197	55,757
	8,927,093	9,010,830
Unbilled*	11,919,866	12,221,355
	20,846,959	21,232,185

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

- (b) Included in the trade receivables of the Group as at 31 December 2021 was an aggregate amount of HK\$2,917,000 (2020: HK\$2,848,000) due from北京北控環保工程技術有限公司, a wholly-owned subsidiary of Beijing Enterprises Holdings Limited (“BEHL”), which is a substantial beneficial shareholder of the Company, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and repayable on credit terms similar to those offered to the major customers of the Group.
- (c) The movements in the Group’s the loss allowance for impairment of trade receivables during the year are as follows:

	2021 HK\$'000	2020 HK\$'000
At 1 January	231,779	87,348
Impairment losses, net	164,717	131,410
Exchange realignment	(17,756)	13,021
At 31 December	378,740	231,779

The increase (2020: increase) in the loss allowance was due to increase in credit risk of certain aged overdue receivables.

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2021, the probability of default applied ranged from 0.06% to 15.33% (2020: 0.06% to 100%) and the loss given default was estimated to range from 54.67% to 64.87% (2020: 54.16% to 64.87%).

Set out below is the information about the credit risk exposure of the Group’s trade receivables using the probability of default approach:

	Stage 1 Collective HK\$'000	Stage 2 Collective HK\$'000	Stage 3 Collective HK\$'000	POCI HK\$'000	Total HK\$'000
As at 31 December 2021					
ECL allowance as at 1 January 2021	24,330	6,899	200,550	–	231,779
New assets originated	6,157	–	–	–	6,157
Repaid (excluding write-offs)	(8,761)	–	–	–	(8,761)
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
Loss allowance recognised	197,515	170,356	(200,550)	–	167,321
Exchange realignment	2,442	(20,198)	–	–	(17,756)
At 31 December 2021	221,683	157,057	–	–	378,740

NOTES TO FINANCIAL STATEMENTS

31 December 2021

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(c) *(Continued)*

Set out below is the information about the credit risk exposure of the Group's trade receivables using the probability of default approach:
(Continued)

	Stage 1 Collective <i>HK\$'000</i>	Stage 2 Collective <i>HK\$'000</i>	Stage 3 Collective <i>HK\$'000</i>	POCI <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2020					
ECL allowance as at 1 January 2020	87,348	–	–	–	87,348
New assets originated	5,158	54	–	–	5,212
Repaid (excluding write-offs)	(3,127)	–	–	–	(3,127)
Transfer to Stage 2	(5,597)	5,597	–	–	–
Transfer to Stage 3	(86,455)	–	86,455	–	–
Loss allowance recognised	21,804	1,248	106,273	–	129,325
Exchange realignment	5,199	–	7,822	–	13,021
At 31 December 2020	24,330	6,899	200,550	–	231,779

(d) The Group did not hold any material collateral or other credit enhancements over trade receivable balances.

(e) As at 31 December 2021, trade receivables of HK\$985,664,000 (2020: HK\$959,484,000) were designated as a charge for the repayment of the MYR Bonds, details of which are disclosed in note 36 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Prepayments		560,715	453,900
Deposits and other debtors	<i>(a)</i>	6,389,348	5,924,010
Advances to subcontractors and suppliers	<i>(b)</i>	2,977,699	4,981,623
Due from joint ventures	<i>20(d)</i>	1,556,305	657,200
Due from associates	<i>21(b)</i>	859,000	78,907
Due from non-controlling equity holders	<i>(c)</i>	248,950	247,378
Due from other related parties	<i>28</i>	247,455	318,548
		12,839,472	12,661,566
Impairment	<i>(d)</i>	(773,304)	(762,948)
		12,066,168	11,898,618
Portion classified as current assets		(9,927,307)	(9,749,686)
Non-current portion		2,138,861	2,148,932

Notes:

(a) The Group's deposits and other debtors as at 31 December 2021 and 2020 included, inter alia, the following:

- (i) loans and related interest receivables of HK\$482,374,000 (2020: HK\$589,808,000) in aggregate provided to various government authorities in Mainland China as part of the construction funding for certain comprehensive renovation projects undertaken by these government authorities. Certain of these loans are bear interest at 4.75% to 10% (2020: 4.75% to 10%) per annum.

The above loans and the corresponding interest receivables of HK\$12,195,000 (2020: HK\$11,905,000) in aggregate are repayable within one year after the reporting period and are classified as current assets, and HK\$470,178,000 (2020: HK\$577,903,000) in aggregate are classified as non-current assets. The above balances are secured by proceeds from the disposal of certain land use rights owned by the relevant government authorities in Mainland China.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

Notes: (Continued)

(a) *(Continued)*

- (ii) a loan amount of HK\$171,366,000 (2020: HK\$229,037,000) provided to a former joint venture partner, for capital injection of the joint venture which was disposed of by the Group in prior years. The balance is secured, bears interest at 12% per annum and is repayable on demand and is classified as a non-current asset.
- (iii) investment deposits of HK\$120,386,000 (2020: HK\$117,520,000) in aggregate paid to independent third parties in connection with the Group's acquisition of the controlling equity interests in certain water distribution and consultancy operations in the PRC. The balances are classified as non-current assets.
- (iv) investment/bidding deposits of HK\$123,494,000 (2020: HK\$156,217,000) in aggregate paid to certain government authorities in the PRC for acquiring certain sewage and reclaimed water treatment operations, of which HK\$122,884,000 (2020: HK\$155,622,000) and HK\$610,000 (2020: HK\$595,000) are classified as current and non-current assets, respectively.
- (v) consideration receivables amounting to HK\$141,746,000 (2020: HK\$180,556,000) in aggregate from the disposal of parcels of land in the PRC which are classified as a non-current asset.
- (b) Included in the Group's advances to subcontractors and suppliers were advance payments in an aggregate amount of HK\$384,720,000 (2020: HK\$375,560,000) made by certain subsidiaries of the Group to subcontractors for construction services to be performed on a certain comprehensive renovation project entered into between the Group and government authorities in the PRC. The construction of this project was delayed and the subcontractor had returned an aggregate amount of HK\$384,720,000 (2020: HK\$375,560,000) of these advance payments to the other subsidiaries of the Group. As the criteria for offsetting financial instruments are not met, the refunded amounts are included in "Other payables and accruals" on the face of the consolidated statement of financial position (note 42).
- (c) A loan and related interest receivables of HK\$66,023,000 (2020: HK\$64,451,000) were provided to a non-controlling equity holder of a subsidiary. The balance is unsecured, bears interest of the benchmark interest rate for 3 to 5-year RMB loans published by the People's Bank of China increased by 25% per annum and is repayable on demand and is classified as a current asset.
- (d) The movements in the loss allowance for impairment of other receivables are as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At 1 January	762,948	242,253
(Reversal of impairment)/impairment losses, net	(2,499)	479,336
Exchange realignment	12,855	41,359
At 31 December	773,304	762,948

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

Notes: (Continued)

(d) *(Continued)*

No material change in the loss allowance for the year ended 31 December 2021 (2020: increase in the loss allowance was due to a significant increase in credit risk of certain aged overdue receivables).

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probability of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2021, the probability of default applied ranged from 0.06% to 100% (2020: 0.06% to 100%) and the loss given default was estimated to range from 54.31% to 64.87% (2020: 54.16% to 64.87%).

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

	Stage 1 Collective HK\$'000	Stage 2 Collective HK\$'000	Stage 3 Collective HK\$'000	POCI HK\$'000	Total HK\$'000
As at 31 December 2021					
ECL allowance as at 1 January 2021	193,855	40,513	528,580	–	762,948
New assets originated	899	–	–	–	899
Repaid (excluding write-offs)	(521)	(24,824)	–	–	(25,345)
Transfer to Stage 2	(26)	26	–	–	–
Loss allowance recognised	1,530	7,138	13,279	–	21,947
Exchange realignment	4,465	382	8,008	–	12,855
At 31 December 2021	200,202	23,235	549,867	–	773,304
As at 31 December 2020					
ECL allowance as at 1 January 2020	174,837	–	67,416	–	242,253
New assets originated	115	–	–	–	115
Repaid (excluding write-offs)	(318)	–	–	–	(318)
Transfer to Stage 2	(13)	13	–	–	–
Transfer to Stage 3	(1,763)	–	1,763	–	–
Loss allowance recognised	6,921	38,450	434,168	–	479,539
Exchange realignment	14,076	2,050	25,233	–	41,359
At 31 December 2020	193,855	40,513	528,580	–	762,948

NOTES TO FINANCIAL STATEMENTS

31 December 2021

28. BALANCES WITH RELATED PARTIES

The balances with related parties are unsecured, interest-free and are repayable on demand, except for the balances with related companies of the Group included in receivables under service concession arrangements, trade receivables, other receivables, trade payables and other payables are disclosed in notes 18, 26, 27, 41 and 42 to the financial statements, respectively.

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cash and bank balances:		
Placed in banks	9,748,802	12,318,404
Placed in a financial institution (<i>note 51</i>)	1,357,603	2,599,712
Time deposits:		
Placed in banks	115,246	370,620
Total cash and bank balances	11,221,651	15,288,736
Less: Restricted cash and pledged deposits (<i>note (a)</i>)	(478,956)	(591,542)
Cash and cash equivalents	10,742,695	14,697,194

Notes:

- (a) The Group's restricted cash and pledged deposits as at 31 December 2021 included the following:
- (i) bank deposits of HK\$465,361,000 (2020: HK\$564,428,000) which could only be used for the construction of sewage treatment facilities and other infrastructural facilities undertaken by the Group; and
 - (ii) bank deposits of HK\$13,595,000 (2020: HK\$27,114,000) pledged to banks for the issuance of guarantees and to secure certain banking facilities granted to the Group (*note 35*).

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31 December 2021

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

(Continued)

Notes: (Continued)

(b) The carrying amounts of the Group's cash and bank balances are denominated in the following currencies

	2021 HK\$'000	2020 HK\$'000
MOP	967	983
HK\$	498,110	372,175
RMB	10,045,191	14,192,495
US\$	122	240,479
MYR	266,919	27,811
EUR	167,367	165,698
SGD	45,245	42,043
AUD	197,730	247,052
	11,221,651	15,288,736

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(c) The Group's bank balances are deposited with creditworthy banks with no recent history of defaults.

30. SHARE CAPITAL

Shares

	2021 HK\$'000	2020 HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.10 each	1,500,000	1,500,000
Issued and fully paid:		
10,135,821,871 (2020: 10,021,595,871) ordinary shares of HK\$0.10 each	1,013,582	1,002,160

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

A summary of the movements in the Company's issued share capital during the years ended 31 December 2021 and 2020 is as follows:

	Number of ordinary shares in issue	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2020	10,021,195,871	1,002,120	2,537,183	3,539,303
Exercise of share options <i>(note)</i>	400,000	40	1,189	1,229
At 31 December 2020 and 1 January 2021	10,021,595,871	1,002,160	2,538,372	3,540,532
Exercise of share options <i>(note)</i>	114,226,000	11,422	352,687	364,109
At 31 December 2021	10,135,821,871	1,013,582	2,891,059	3,904,641

Note:

During the year, the subscription rights attaching to 114,226,000 (2020: 400,000) share options were exercised at a subscription price of HK\$2.244 (2020: HK\$2.244) per ordinary share during the year, resulting in the issue of 114,226,000 (2020: 400,000) ordinary shares of the Company for a total cash consideration of approximately HK\$256,323,000 (2020: HK\$898,000) (before expenses). At the time when the share options were exercised, the aggregate fair value of these share options of HK\$107,786,000 (2020: HK\$332,000) previously recognised in the share option reserve was transferred to the share premium account. Further details of the share options are set out in note 31 to the financial statements.

Share options

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

31. SHARE OPTION SCHEME

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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31. SHARE OPTION SCHEME *(Continued)*

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

	2021		2020	
	Weighted average exercise price <i>HK\$</i> <i>per share</i>	Number of options <i>'000</i>	Weighted average exercise price <i>HK\$</i> <i>per share</i>	Number of options <i>'000</i>
At 1 January	2.267	256,726	2.267	257,126
Exercised during the year	2.244	(114,226)	2.244	(400)
At 31 December	2.285	142,500	2.267	256,726

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

2021	2020	Exercise price*	Exercise periods
Number of options <i>'000</i>	Number of options <i>'000</i>	<i>HK\$ per share</i>	
9,796	21,196	2.244	24-4-2014 to 23-4-2023
22,084	36,084	2.244	24-4-2015 to 23-4-2023
26,740	51,206	2.244	24-4-2016 to 23-4-2023
39,820	72,000	2.244	24-4-2017 to 23-4-2023
42,060	74,240	2.244	24-4-2018 to 23-4-2023
2,000	2,000	5.180	1-6-2016 to 27-3-2024
142,500	256,726		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

Notes:

- (a) No share option expense was recognised during the years ended 31 December 2021 and 2020 as the expense was fully amortised in prior years.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

31. SHARE OPTION SCHEME *(Continued)*

Notes: (Continued)

- (b) The 114,226,000 (2020: 400,000) share options exercised during the year resulted in the issue of 114,226,000 (2020: 400,000) ordinary shares of the Company and new share capital of HK\$11,422,000 (2020: HK\$40,000), as further detailed in note 30 to the financial statements.
- (c) At the end of the reporting period, the Company had 142,500,000 share options outstanding under the Scheme, which represented approximately 1.41% of the Company's shares in issue as at 31 December 2021. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 142,500,000 additional ordinary shares of the Company and additional share capital of HK\$14,250,000 and share premium of HK\$437,707,000 (before issue expenses, and taking into account the share option reserve as at 31 December 2021).

Subsequent to the end of the reporting period, no share options were exercised.

At the date of approval of these financial statements, the Company had 142,500,000 share options outstanding under the share option scheme, which represented approximately 1.41% of the Company's share in issue as at that date.

32. SHARE AWARD SCHEME

The Company operates a share award scheme (the "Share Award Scheme") for the purpose of recognising the contributions by certain employees, directors and consultants of the Group and encourage them for the continual operation and development of the Group, and attract excellent talent for further development of the Group. The Share Award Scheme became effective on 17 December 2018 and shall be valid and effective for a term of 5 years commencing on the adoption date and ending on the expiry of the trust period which may be extended by the Board at its absolute discretion.

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

The Company shall not make any further award of awarded shares which will result in the aggregate number of shares held by the trustee under the Share Award Scheme at any single point in time exceeding 2% of the total issued share capital of the Company from time to time. Further details of the Share Award Scheme are set out in the announcement of the Company dated 17 December 2018.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

32. SHARE AWARD SCHEME *(Continued)*

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

	Number of ordinary shares held under share award scheme account	Amount <i>HK\$'000</i>
At 1 January 2020	24,938,000	110,014
Exercised during the year	(15,003,053)	(56,329)
Purchased during the year <i>(note (a))</i>	22,364,000	67,583
At 31 December 2020 and 1 January 2021	32,298,947	121,268
Exercised during the year	(12,330,489)	(44,189)
Purchased during the year <i>(note (a))</i>	11,822,000	36,848
At 31 December 2021	31,790,458	113,927

Notes:

- (a) During the year ended 31 December 2021, 11,822,000 (2020: 22,364,000) ordinary shares of the Company were purchased by the trustee from the open market at an aggregate consideration of approximately HK\$36,848,000 (2020: HK\$67,583,000). The amount has been deducted from shareholders' equity and recorded in "Shares held under share award scheme" of the Group. As at 31 December 2021, there were 31,790,458 (2020: 32,298,947) ordinary shares held through the trustee of the Share Award Scheme.

12,471,409 awarded shares were granted during the year ended 31 December 2021 (2020: Nil).

- (b) On 1 November 2021, the Company granted an aggregate of 591,864 awarded shares to three directors, namely Mr. Li Haifeng, Mr. Zhang Tiefu, Mr. Tung Woon Cheung Eric and 11,879,545 awarded shares (collectively referred to as the "Awarded Shares") to other employees of the Group (collectively referred to as the "Selected Participants"). Further details of the grant are set out in the announcement of the Company dated 1 November 2021.

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

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32. SHARE AWARD SCHEME *(Continued)*

Notes: (Continued)

(b) *(Continued)*

The fair value of equity-settled share awards granted during the year ended 31 December 2021 amounted to HK\$37,539,000 in total, which was determined based on the closing market price at the date of the grant.

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

Movements in the number of the Awarded Shares and their related average fair value are as follows:

	2021		2020	
	Average fair value HK\$ per share	Number of shares	Average fair value HK\$ per share	Number of shares
At 1 January	–	–	3.54	15,374,599
Granted	3.01	12,471,409	–	–
Exercised	3.01	(12,330,489)	3.54	(15,003,053)
Lapsed	–	–	3.54	(371,546)
At 31 December		140,920		–

NOTES TO FINANCIAL STATEMENTS

31 December 2021

33. RESERVES

- (a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.
- (b) The share option and share award reserve comprises the fair value of share options and share awards vested which are yet to be exercised and the share awards granted, as further explained in the accounting policy of share-based payments in note 3.4 to the financial statements. The amount will either be transferred to the share premium account when the related share options and share awards are exercised, or transferred to retained profits should the related share options or share awards lapse or be forfeited.
- (c) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries, joint ventures and associates. None of the Group's PRC reserve funds as at 31 December 2021 and 2020 were distributable in the form of cash dividends.

34. PERPETUAL CAPITAL INSTRUMENTS

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At 1 January		7,810,440	6,250,999
Issuance of perpetual capital instruments		2,997,840	1,187,358
Repayment of perpetual capital instruments		(6,702,878)	–
Share of profit for the year		260,036	261,777
Distribution declared for the year		(260,036)	(261,777)
Exchange realignment		145,901	372,083
At 31 December		4,251,303	7,810,440
Portion classified as equity attributable to shareholders of the Company	<i>(b)</i>	(1,216,904)	(1,187,358)
Portion directly attributable to holders of perpetual capital instruments	<i>(a), (c)</i>	3,034,399	6,623,082

NOTES TO FINANCIAL STATEMENTS

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34. PERPETUAL CAPITAL INSTRUMENTS *(Continued)*

Notes:

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

During the year ended 31 December 2021, distributions with an aggregate of RMB29,129,000 (approximately HK\$35,095,000) were declared to the holders of the Perpetual Capital Instruments III, and RMB23,011,000 (approximately HK\$28,062,000) has not been paid and recorded in other payables as at 31 December 2021.

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

During the year ended 31 December 2021, distributions with an aggregate of RMB40,307,000 (approximately HK\$48,563,000) (2020: RMB25,534,000 (approximately HK\$29,597,000)) were declared to the holders of the Perpetual Capital Instrument II, of which RMB25,534,000 (approximately HK\$31,139,000) (2020: RMB25,534,000 (approximately HK\$29,597,000)) has not been paid and recorded in other payables as at 31 December 2021 and 2020.

- (c) In 2016, a PRC wholly-owned subsidiary of the Group issued two perpetual capital instruments (the “Perpetual Capital Instruments I”) with the aggregate principal amount of RMB5,600,000,000 (approximately HK\$6,588,235,000). Net proceeds after deducting the issuance costs amounted to RMB5,563,389,000 (approximately HK\$6,545,163,000).

One of the Perpetual Capital Instruments with a principal amount of RMB2,800,000,000 (approximately HK\$3,294,118,000) is guaranteed by the Company. There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the Group. The Perpetual Capital Instruments I are classified as equity instruments.

During the year ended 31 December 2021, distributions with an aggregate of RMB146,393,000 (approximately HK\$176,378,000) (2020: RMB206,640,000 (approximately HK\$232,180,000)) were declared to the holders of the Perpetual Capital Instruments I. All the distributions were paid during the year. As at 31 December 2020, RMB48,038,000 (approximately HK\$57,242,000) had not been paid in prior years and recorded in other payables.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

35. BANK AND OTHER BORROWINGS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Bank loans:		
Secured	26,960,162	19,534,461
Unsecured	27,454,562	27,974,813
	54,414,724	47,509,274
Other loans:		
Secured	941,426	730,708
Unsecured	1,317,709	1,393,695
	2,259,135	2,124,403
Total bank and other borrowings	56,673,859	49,633,677
Analysed into:		
Bank loans repayable:		
Within one year or on demand	10,289,459	6,573,423
In the second year	3,921,915	10,427,407
In the third to fifth years, inclusive	24,954,592	18,217,008
Beyond five years	15,248,758	12,291,436
	54,414,724	47,509,274
Other loans repayable:		
Within one year or on demand	541,994	251,268
In the second year	469,912	301,766
In the third to fifth years, inclusive	835,205	884,707
Beyond five years	412,024	686,662
	2,259,135	2,124,403
Total bank and other borrowings	56,673,859	49,633,677
Portion classified as current liabilities	(10,831,453)	(6,824,691)
Non-current portion	45,842,406	42,808,986

NOTES TO FINANCIAL STATEMENTS

31 December 2021

35. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
HK\$	20,154,237	17,766,070
RMB	33,883,564	29,023,073
US\$	–	8,086
EUR	573,930	620,382
SGD	587,627	639,396
AUD	1,315,517	1,534,298
MYR	158,984	42,372
	56,673,859	49,633,677

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

	2021	2020
Bank loans:		
Secured	2.21%-6.00%	1.06% – 5.39%
Unsecured	1.11%-5.15%	1.70% – 5.94%
Other loans:		
Secured	2.15% – 4.80%	2.43% – 5.40%
Unsecured	1.20% – 5.38%	1.20% – 5.68%

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

- (i) mortgages over certain sewage treatment and water distribution concession rights (comprising operating concessions and receivables under service concession arrangements) in a net carrying amount of HK\$33,971,243,000 (2020: HK\$16,235,944,000) as at 31 December 2021, which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors (note 18);
- (ii) guarantees given by the Company and/or its subsidiaries;
- (iii) bank deposits of HK\$13,595,000 (2020: HK\$27,114,000) pledged to banks for the issuance of guarantees and to secure certain banking facilities granted to the Group;

NOTES TO FINANCIAL STATEMENTS

31 December 2021

35. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(c) *(Continued)*

(iv) mortgages over certain land use rights and buildings and investment properties in Mainland China in an aggregate carrying amount of HK\$1,492,967,000 (2020: HK\$1,714,021,000) (notes 14 and 15); and

(v) pledges over the Group's equity interests in certain subsidiaries.

(d) The Group's bank and other borrowings bear interest at floating rates, except for the following:

(i) bank and other loans in an aggregate principal amount of HK\$291,463,000 (2020: HK\$299,752,000) bearing interest at fixed rates ranging from 1.2% to 4.05% (2020: 1.2% to 6.12%) per annum; and

(ii) Three (2020: three) interest-free government loans in an aggregate principal amount of HK\$24,871,000 (2020: HK\$23,241,640).

(e) Loan agreements of certain bank loans of the Group in an aggregate carrying amount of HK\$20,514,353,000 (2020: HK\$18,511,772,000) as at 31 December 2021 include covenants imposing specific performance obligations on BEHL, a substantial beneficial shareholder of the Company, among which any one of the following events would constitute events of default on the loan facilities:

(i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35%, where applicable, of the issued share capital of the Company;

(ii) if Beijing Enterprises Group Company Limited ("BEGCL"), a substantial shareholder of the Company, does not or ceases to beneficially own, directly or indirectly, at least 40%, where applicable, of the voting rights in BEHL; and/or

(iii) if BEHL/BEGCL ceases to be controlled and supervised by the People's Government of Beijing Municipality.

Based on the directors' best belief and knowledge, none of the above events took place during the year and as at the date of approval of these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

36. CORPORATE BONDS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Secured corporate bonds repayable:		
Within one year	149,632	173,340
In the second year	149,632	154,080
In the third to fifth years, inclusive	55,020	210,735
	354,284	538,155
Unsecured corporate bonds, repayable:		
Within one year	–	7,317,390
In the second year	7,539,649	–
In the third to fifth years, inclusive	6,684,904	8,603,740
Beyond five years	2,422,199	3,548,939
	16,646,752	19,470,069
Total corporate bonds	17,001,036	20,008,224
Portion classified as current liabilities	(149,632)	(7,490,730)
Non-current portion	16,851,404	12,517,494

Corporate bonds of the Group as at 31 December 2021 and 2020 comprised:

- (i) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the “RMB Bonds”) issued by a wholly-owned subsidiary of the Group to two institutional investors in April 2016 pursuant to the subscription agreement dated 25 April 2016, bearing interest at a rate of 3.60% per annum and guaranteed by the Company. The RMB Bonds are due for repayment on 25 April 2021. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the subsidiary of the Group shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Group. The Group repaid RMB1,746,599,000 as at 31 December 2019 and the remaining balance was fully settled during the year;
- (ii) corporate bonds with an aggregate principal amount of RMB4,000,000,000 (the “Panda Bonds”) issued by the Company to certain institutional investors in July 2016 pursuant to the subscription agreement dated 22 July 2016, bearing interest at rates of 3.00% and 3.33% per annum. The Panda Bonds are due for repayment on 28 July 2021 and 28 July 2023. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company. Further details of the Panda Bonds are set out in the Company’s announcements dated 25 July 2016. The Group repaid RMB1,800,000,000 as at 31 December 2019 and the remaining balance was fully settled during the year;

NOTES TO FINANCIAL STATEMENTS

31 December 2021

36. CORPORATE BONDS *(Continued)*

- (iii) corporate bonds with an aggregate principal amount of RMB700,000,000 (the “Green Bonds”) issued by the Company to certain institutional investors in August 2016, bearing interest at a rate of 3.25% per annum. The Green Bonds are due for repayment on 3 August 2024. Three years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company. Further details of the Green Bonds are set out in the Company’s announcements dated 22 August 2016. The bonds were fully repaid in 2021;
- (iv) corporate bonds with an aggregate principal amount of RMB1,300,000,000 (the “Second Panda Bonds”) issued by the Company to certain institutional investors in August 2017, bearing interest at a rate of 5.20% per annum. The Second Panda Bonds are due for repayment on 2 August 2022. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company. The bonds were fully repaid in 2020;
- (v) corporate bonds with an aggregate principal amount of MYR400,000,000 (the “MYR Bonds”) issued by a wholly-owned subsidiary to certain institutional investors in July 2017, bearing interest at rates ranging from 5.1% to 5.5% per annum and guaranteed by the Company. Trade receivables of MYR527,093,000 (equivalent to HK\$985,664,000) (2020: MYR498,174,000 (equivalent to HK\$959,484,000)) (note 26) and amounts due from contract customers of MYR21,706,000 (equivalent to HK\$40,599,000) (2020: MYR58,257,000 (equivalent to HK\$112,203,000)) (note 25) were designated as a charge for the repayment of the MYR Bonds. The MYR Bonds are due for repayment starting from 17 July 2020. The Group repaid MYR90,000,000 (2020: MYR120,000,000) during the year ended 31 December 2021;
- (vi) corporate bonds with an aggregate principal amount of US\$500,000,000 (the “US\$ Bonds”) issued by a wholly-owned subsidiary to certain institutional investors in May 2018, bearing interest rate of 4.95% per annum and guaranteed by the Company. The US\$ Bonds are due for repayment in May 2023;
- (vii) corporate bonds with an aggregate principal amount of RMB3,000,000,000 (the “Third Panda Bonds”) issued by the Company to certain institutional investors in May 2018 pursuant to the offering announcement dated 28 May 2018, bearing interest at rates of 4.92% and 5.1% per annum. The Third Panda Bonds are due for repayment on 25 May 2023 and 25 May 2025. Two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company; The Group repaid RMB2,000,000,000 during the year;
- (viii) corporate bonds with an aggregate principal amount of RMB3,000,000,000 (the “Fourth Panda Bonds”) issued by the Company to certain institutional investors in July 2018 pursuant to the offering announcement dated 16 July 2018, bearing interest at rates of 4.72% (2020: 4.45% and 4.72%) per annum. The Fourth Panda Bonds are due for repayment on 20 July 2025 (2020: 20 July 2023 and 20 July 2025). Two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company; The Group repaid RMB1,000,000,000 during the year;

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31 December 2021

36. CORPORATE BONDS *(Continued)*

- (ix) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the “Fifth Panda Bonds”) issued by the Company to certain institutional investors in January 2019 pursuant to the offering announcement dated 11 January 2019, bearing interest at rates of 3.95% and 4.49% per annum. The Fifth Panda Bonds are due for repayment on 11 January 2026 and 11 January 2029. For the bonds that due in 2026, two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company;
- (x) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the “Sixth Panda Bonds”) issued by a wholly-owned subsidiary to certain institutional investors in February 2020 pursuant to the subscription agreement dated 27 February 2020, bearing interest at rates of 3.43% and 3.98% per annum. The Sixth Panda Bonds are due for repayment on 5 March 2028 and 5 March 2030. For the bonds that due in 2028, three years prior to the maturity, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company;
- (xi) corporate bonds with an aggregate principal amount of RMB1,500,000,000 (the “Seventh Panda Bonds”) issued by the Company to certain institutional investors in April 2021 pursuant to the subscription agreement dated 23 April 2021, bearing interest at a rate of 3.98% per annum. The Seventh Panda Bonds are due for repayment on 23 April 2029. Three years prior to the maturity, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company;
- (xii) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the “Eighth Panda Bonds”) issued by the Company to certain institutional investors in July 2021 pursuant to the subscription agreement dated 14 July 2021, bearing interest at rates of 3.27% and 3.64% per annum. The Eighth Panda Bonds are due for repayment on 14 July 2026. For RMB1,000,000,000 of the bonds, two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company.

The corporate bonds at 31 December 2021 will be due for repayment on the aforementioned maturity dates unless being redeemed prior to their maturity pursuant to the terms thereof and of the indenture. In addition, the US\$ Bonds and certain Panda Bonds include covenants imposing specific performance obligations on BEHL, among which any one of the following events would constitute events of default:

- (i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;
- (ii) if BEHL does not or ceases to supervise the Company;
- (iii) if BEHL is not or ceases to be, directly or indirectly, the single largest shareholder of the Company; and/or
- (iv) if the nominees of BEHL cease to comprise the majority of the members of the Company’s board of directors.

Based on the best belief and knowledge of the Company’s directors, none of the above events took place during the year and as at the date of approval of these financial statements.

NOTES TO FINANCIAL STATEMENTS

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37. NOTES PAYABLE

Notes payable of the Group as at 31 December 2021 and 2020 comprised:

- (i) a corporate note issued on 8 November 2013 with a principal amount of RMB2,000,000,000 (the “RMB Note”) which is unsecured and wholly repayable in the third to fifth years, inclusive, from the end of the reporting period. The note payable is guaranteed by the Company, bears interest at a rate of 6.15% per annum and is due for repayment on 14 November 2022 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement; and
- (ii) a corporate note issued on 8 May 2015 with a principal amount of HK\$700,000,000 (the “HK\$ Note”) which is unsecured and bears interest at a rate of 3.9% per annum. The note payable is guaranteed by the Company and due for repayment on 15 May 2020 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement. The HK\$ Note was fully redeemed in 2020.

The notes payable include covenants imposing specific performance obligations on BEHL, among which any one of the following events would constitute events of default:

- (i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;
- (ii) if BEHL does not or ceases to supervise the Company;
- (iii) if BEHL is not or ceases to be, directly or indirectly, the single largest shareholder of the Company;
- (iv) if the nominees of BEHL cease to comprise the majority of the members of the Company’s board of directors; and/or
- (v) if BEHL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality.

Based on the best belief and knowledge of the Company’s directors, none of the above events took place during the year and as at the date of approval of these financial statements.

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38. PROVISION FOR MAJOR OVERHAULS

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

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

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
At 1 January		230,496	242,562
Provision for the year	7	274,981	209,024
Increase in discounted amounts arising from the passage of time	8	33,270	24,262
Amount utilised during the year		(242,731)	(235,503)
Disposal of subsidiaries	46	–	(20,779)
Exchange realignment		6,150	10,930
At 31 December		302,166	230,496

39. DEFERRED INCOME

Deferred income of the Group mainly represented government subsidies received in respect of the Group's construction of sewage treatment and water distribution facilities in the PRC and receipt in advance of certain guarantee receipts of sewage water treatment related to the transfer of financial assets related to the asset-backed note that further details are set out in the announcement of the Company dated 20 April 2017.

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

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40. DEFERRED TAX

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

	2021 HK\$'000	2020 HK\$'000
Deferred tax assets	398,869	264,250
Deferred tax liabilities	(4,973,688)	(4,096,254)
	(4,574,819)	(3,832,004)

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

	Notes	Attributable to						Net deferred tax assets/ (liabilities) HK\$'000
		Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Impairment provision HK\$'000	Provision for major overhauls HK\$'000	Temporary differences related to service concession arrangements HK\$'000	Revaluation of properties HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	
At 1 January 2020		(325,289)	26,822	88,178	(2,915,177)	(9,249)	2,218	(3,132,497)
Disposal of subsidiaries	46	-	(3,645)	(5,195)	70,518	-	-	61,678
Net deferred tax credited/(charged) to profit or loss	11	(6,404)	163,340	(406)	(704,068)	-	-	(547,538)
Exchange realignment		(19,744)	11,358	7,895	(212,809)	(551)	204	(213,647)
At 31 December 2020 and 1 January 2021		(351,437)	197,875	90,472	(3,761,536)	(9,800)	2,422	(3,832,004)
Net deferred tax credited/(charged) to profit or loss	11	378	41,053	(14,668)	(674,135)	-	-	(647,372)
Exchange realignment		(29,992)	17,910	3,294	(86,249)	(583)	177	(95,443)
At 31 December 2021		(381,051)	256,838	79,098	(4,521,920)	(10,383)	2,599	(4,574,819)

NOTES TO FINANCIAL STATEMENTS

31 December 2021

40. DEFERRED TAX *(Continued)*

Notes:

- (a) At 31 December 2021, deferred tax assets have not been recognised in respect of unused tax losses of HK\$778,108,000 (2020: HK\$549,850,000) as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, unrecognised tax losses of HK\$102,003,000 (2020: HK\$77,731,000) will expire in one to five years.
- (b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2021, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors of the Company, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$7,140,922,000 (2020: HK\$6,771,563,000) as at 31 December 2021.

41. TRADE PAYABLES

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

	2021 HK\$'000	2020 HK\$'000
Within 3 months	13,540,292	12,337,507
4 to 6 months	1,493,349	2,626,275
7 months to 1 year	1,262,687	3,111,790
1 to 2 years	3,933,816	4,408,766
2 to 3 years	2,667,833	1,917,398
Over 3 years	2,041,748	1,891,898
Balance with an extended credit period	131,453	128,072
	25,071,178	26,421,706

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

The Group's trade payables as at 31 December 2021 included, inter alia, an amount of HK\$3,450,000 (2020: HK\$3,450,000) due to an associate of the Group, arising from the construction of certain sewage treatment facilities carried out in the ordinary course of business of the Group. No construction service was provided and no amount was charged during the years ended 31 December 2021 and 2020.

NOTES TO FINANCIAL STATEMENTS

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42. OTHER PAYABLES AND ACCRUALS

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Accruals		1,277,134	1,492,655
Other liabilities	<i>(a)</i>	4,357,137	4,114,104
Contract liabilities	<i>(b)</i>	1,477,697	1,341,315
Due to subcontractors	<i>(c)</i>	990,266	918,710
Due to joint ventures	<i>20(d)</i>	1,401,678	2,124,076
Due to associates	<i>21(b)</i>	69,768	60,738
Due to non-controlling equity holders		–	5,832
Due to related parties	<i>(d)</i>	197,774	316,916
Other taxes payables	<i>43</i>	647,010	591,076
		10,418,464	10,965,422
Portion classified as current liabilities		(9,610,921)	(9,639,580)
		807,543	1,325,842

Notes:

- (a) The Group's other liabilities as at 31 December 2021 and 2020 included, inter alia, the following:
- (i) outstanding considerations in an aggregate amount of HK\$431,789,000 (2020: HK\$822,685,000) payable to various governmental authorities in Mainland China for the construction or transfer of sewage treatment and water distribution facilities to the Group under the BOT or TOT arrangements; and
 - (ii) outstanding considerations in an aggregate amount of HK\$261,569,000 (2020: HK\$334,548,000) payable to various independent third parties for the acquisition of subsidiaries of nil (2020: HK\$7,238,000), which was attributable to the acquisition completed during the year.

NOTES TO FINANCIAL STATEMENTS

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42. OTHER PAYABLES AND ACCRUALS *(Continued)*

Notes: (Continued)

(b) Details of contract liabilities are as follows:

	31 December 2021 HK\$'000	31 December 2020 HK\$'000	1 January 2020 HK\$'000
Construction services	1,304,471	1,252,312	1,001,153
Others	173,226	89,003	94,106
Total contract liabilities	1,477,697	1,341,315	1,095,259

The increase in contract liabilities in 2021 and 2020 was mainly due to the increase in short-term advances received from customers in relation to the provision of construction, technical and consultancy services at the end of the year.

(c) The amounts due to subcontractors of the Group as at 31 December 2021 included refunds from certain subcontractors of advances made by the Group for certain construction services for comprehensive renovation projects in an aggregate amount of HK\$384,720,000 (2020: HK\$375,560,000), as further detailed in note 27 to the financial statements.

(d) Included in the amounts due to related parties of the Group as at 31 December 2021 were advance from a related party of SGD13,806,000 (equivalent to HK\$78,997,000) (2020: SGD12,715,000 (equivalent to HK\$74,583,000)). The amount is unsecured, bears interest at a fixed rate of 2.5% per annum and is repayable by quarterly instalments. Interest expense of HK\$1,915,000 (2020: HK\$1,792,000) was recognised in profit or loss during the year ended 31 December 2021.

(e) Other payables are non-interest-bearing and have an average credit term of three months.

43. OTHER TAXES PAYABLES

	2021 HK\$'000	2020 HK\$'000
Business tax	71,022	35,443
Value-added taxes	469,131	451,943
Others	106,857	103,690
	647,010	591,076

NOTES TO FINANCIAL STATEMENTS

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

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

	BEWG Environmental Group (“北控中科成”) <i>(note a)</i>		BCEG Environmental and its subsidiaries (“BCEG Group”)	
	2021	2020	2021	2020
Percentage of equity interest held by non-controlling interests:	35.59%	14.55%	61.35%	48.73%
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Profit for the year allocated to non-controlling interests:	533,249	255,995	179,247	186,101
Accumulated balances of non-controlling interests at the reporting date:	9,182,445	5,831,104	1,786,678	1,598,536

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

(Continued)

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

	BEWG Environmental Group		BCEG Group	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Revenue	7,068,889	5,083,854	1,087,641	951,591
Interest income	262,044	222,101	2,615	6,491
Total expenses	(5,194,790)	(3,252,924)	(801,789)	(629,660)
Profit for the year	2,136,143	2,053,031	288,467	328,422
Total comprehensive income for the year	2,721,894	2,816,380	384,849	420,559
Current assets	18,181,093	15,465,153	1,039,441	1,128,613
Non-current assets	41,900,215	39,813,932	4,058,962	3,482,225
Current liabilities	(18,317,047)	(22,835,116)	(1,314,633)	(1,138,636)
Non-current liabilities	(11,755,955)	(10,778,453)	(906,732)	(889,649)
Net cash flows used from/(used in):				
Operating activities	(5,738,127)	(2,946,881)	10,733	488,144
Investing activities	(333,152)	(1,029,708)	12,949	18,507
Financing activities	5,523,685	3,329,171	(88,033)	(124,813)
Net increase/(decrease) in cash and cash equivalents	(547,594)	(647,418)	(64,351)	381,838

Notes:

- (a) In December 2020, the Group entered into a capital injection agreement with an independent third party ("the investor"), pursuant to which the investor agreed to make cash contributions of RMB2 billion to BEWG Environmental. Upon completion of the initial capital injections, the Group's percentage of shareholding in BEWG Environmental and its subsidiaries ("BEWG Environmental Group") was diluted from 100% to 85.45%, and BEWG Environmental became partly-owned subsidiary with a material non-controlling interest. The investor is entitled to the expected principal and return.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

(Continued)

Notes: (Continued)

(a) *(Continued)*

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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45. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year ended 31 December 2020 as at their respective dates of acquisition are set out as follows:

	<i>Note</i>	2020 <i>HK\$'000</i>
Property, plant and equipment		8,147
Investments in joint ventures		75,520
Other intangible assets		312
Inventories		1
Trade receivables	<i>(b)</i>	18,581
Prepayments, deposits and other receivables	<i>(b)</i>	245,436
Cash and cash equivalents		97,270
Trade payables		(1,395)
Other payables and accruals		(30,946)
Income tax payables		(4,608)
Deferred income		(2,766)
Total identifiable net assets at fair value		405,552
Non-controlling interests		(16,709)
		388,843
Goodwill on acquisition		32,784
Gains on bargain purchase		(23,188)
		398,439

NOTES TO FINANCIAL STATEMENTS

31 December 2021

45. BUSINESS COMBINATIONS *(Continued)*

	2020 HK\$'000
Satisfied by:	
Cash	126,292
Reclassified from investment in joint ventures	145,215
Waive of other receivables	126,932
	398,439
Revenue for the year since acquisition [#]	104,548
Profit for the year since acquisition	76,041

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2020 HK\$'000
Cash consideration	(126,292)
Cash and cash equivalents acquired	97,270
Consideration payable as at the year end	7,238
Investment deposits paid in the prior year	22,472
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	688

Had the above business combinations taken place at the beginning of the year ended 31 December 2020, the Group's profit for the year ended 31 December 2020 would have been HK\$5,217,102,000 and the Group's revenue would have been HK\$25,492,975,000.

[#] *Revenue for the year since acquisition comprises revenue, interest income and other income and gains, net.*

NOTES TO FINANCIAL STATEMENTS

31 December 2021

45. BUSINESS COMBINATIONS *(Continued)*

Notes:

- (a) No material business combinations incurred during the year ended 31 December 2021. Business combinations during the year ended 31 December 2020 included, inter alia, the following material transactions:
- (i) in January 2020, the Group completed the acquisition of the 21% equity interest in a company which is engaged in the provision of consultancy services in the PRC, at a cash consideration of RMB20,000,000 (equivalent to HK\$22,472,000) from a joint venture partner. The company has become a wholly-owned subsidiary since then; and
- (ii) in September 2020, the Group completed the acquisition of the 58% equity interest in a company which is engaged in the provision of consultancy services and fund management service in the PRC, at an aggregate cash consideration of RMB60,399,000 (equivalent to HK\$67,865,000) from joint venture partners. The company has become a wholly-owned subsidiary since then. The Group had a gain on bargain purchase of HK\$23,188,000 for the year ended 31 December 2020 resulting from the strategic cooperation with the joint venture partner.

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

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

- (b) The fair values of trade receivables, deposits and other receivables as at the respective dates of acquisitions during the year ended 31 December 2020 amounted to HK\$18,581,000 and HK\$245,436,000, respectively.

The gross contractual amounts of trade receivables, deposits and other receivables as at the respective dates of acquisition were HK\$18,581,000 and HK\$245,436,000, respectively, none of which were expected to be uncollectible.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

46. DISPOSAL/DEREGISTRATION OF SUBSIDIARIES

	<i>Notes</i>	2021 HK\$'000 <i>(note (a))</i>	2020 HK\$'000 <i>(note (b))</i>
Net assets disposed/deregistered of:			
Property, plant and equipment		109	24,973
Goodwill		–	9,856
Operating concessions		–	209,796
Other intangible assets		–	9
Amounts due from contract customers		–	142,715
Receivables under service concession arrangements		60,553	1,895,647
Trade receivables		183	–
Deferred tax assets		–	3,645
Inventories		–	183
Prepayments, deposits and other receivables		2,546	84,570
Cash and cash equivalents		84	11,951
Deferred income		–	(4,212)
Trade payables		(29)	(53,732)
Other payables and accruals		(5,954)	(660,874)
Income tax payables		1,473	(9,457)
Bank and other borrowings		–	(335,165)
Provision for major overhauls		–	(20,779)
Deferred tax liabilities		–	(65,323)
Non-controlling interests		–	(490,420)
		58,965	743,383
Exchange fluctuation reserve realised		(6)	2,871
Gain on disposal of subsidiaries, net		431	5,912
Derecognition of non-controlling interests upon deregistration of a subsidiary		–	1,011
		59,390	753,177
Satisfied by:			
Cash		59,390	204,456
Reclassified to a joint venture	<i>(b)(i)</i>	–	548,721
		59,390	753,177

NOTES TO FINANCIAL STATEMENTS

31 December 2021

46. DISPOSAL/DEREGISTRATION OF SUBSIDIARIES *(Continued)*

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cash consideration	59,390	204,456
Cash and bank balances disposed of	(84)	(11,951)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	59,306	192,505

Notes:

- (a) The Group completed the following material disposal of subsidiaries during the year ended 31 December 2021:
- (i) in March 2021, the Group disposed of a 100% equity interest in a subsidiary engaging in the sewage treatment services in the PRC, for a cash consideration of HK\$932,000; and
 - (ii) in December 2021, the Group disposed of a 100% equity interest in a subsidiary engaging in the water distribution services in the PRC, for a cash consideration of HK\$58,458,000.
- (b) The Group completed the following material disposal of subsidiaries during the year ended 31 December 2020:
- (i) in January 2020, the Group loss control on a 41.78% owned subsidiary engaging in the sewage treatment services in the PRC, due to the restructuring of the voting right without any consideration. The equity interest was reclassified to an investment in a joint venture since then;
 - (ii) in December 2020, the Group disposed of a 100% equity interest in a subsidiary engaging in the sewage treatment services in the PRC, for a cash consideration of HK\$153,985,000 to an independent third party; and
 - (iii) in December 2020, the Group disposed of a 100% equity interest in a subsidiary engaging in the sewage treatment services in the PRC, for a cash consideration of RMB44,919,000 (equivalent to HK\$50,471,000) to an independent third party.

47. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$11,167,000 (2020: HK\$13,225,000) and HK\$11,167,000 (2020: HK\$13,225,000), respectively, in respect of lease arrangements for various assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

(b) Changes in liabilities arising from financing activities

	Bank and other borrowings <i>HK\$'000</i>	Lease liabilities <i>HK\$'000</i>	Corporate bonds <i>HK\$'000</i>	Notes payable <i>HK\$'000</i>
At 1 January 2021	49,633,677	408,924	20,008,224	2,379,704
Changes from financing cash flows	5,751,605	(34,326)	(3,274,475)	–
New leases	–	11,167	–	–
Reclassification from lease liabilities	264,748	–	–	–
Reclassification to other loans	–	(264,748)	–	–
Interest expense	30,736	6,426	23,453	832
Foreign exchange movement	993,093	(1,680)	243,834	58,052
At 31 December 2021	56,673,859	125,763	17,001,036	2,438,588
	Bank and other borrowings <i>HK\$'000</i>	Lease liabilities <i>HK\$'000</i>	Corporate bonds <i>HK\$'000</i>	Notes payable <i>HK\$'000</i>
At 1 January 2020	39,376,227	523,343	18,564,904	2,944,769
Changes from financing cash flows	9,020,570	(171,499)	839,660	(700,000)
New leases	–	13,225	–	–
Interest expense	13,266	19,655	24,333	990
Decrease arising from disposal of subsidiaries	(335,165)	–	–	–
Foreign exchange movement	1,558,779	24,200	579,327	133,945
At 31 December 2020	49,633,677	408,924	20,008,224	2,379,704

NOTES TO FINANCIAL STATEMENTS

31 December 2021

48. CONTINGENT LIABILITIES

(a) Guarantees

As at 31 December 2021, bank guarantees in favour of employers in lieu of deposits for project bidding and project performance of HK\$1,223,872,000 (2020: HK\$1,145,819,000) were outstanding and corporate guarantees of HK\$3,635,425,000 (2020: HK\$3,992,594,000) were given to banks and/or institutional investors in connection with facilities granted to certain associates, joint ventures and independent third parties and bonds issued by joint ventures.

(b) Litigation

In September 2021, a plaintiff commenced an arbitration proceeding against a direct wholly-owned subsidiary of the Company (the "Subsidiary A"), alleging that the Subsidiary A failed in execution of an agreement which the Subsidiary A agreed to engage the plaintiff for not less than RMB1 billion of Public-Private Partnership construction work within one year from the agreement date. The first hearing was scheduled on 8 March 2022. Both the plaintiff and the defendant have completed the stage of disclosure and preparation of witness statements, and the final arbitral award is expected to be issued by the end of June 2022.

As advised by the external legal advisers of the Subsidiary A, having considered the facts and submissions made in relation to the case, the Subsidiary A has a reasonable prospect in successfully defending the claim and, therefore, no material adverse financial impact on the Group is expected and the Group has not provided for any claim arising from the legal proceeding.

Save as disclosed above, as at 31 December 2021, the Group did not have any significant contingent liabilities.

49. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank and other borrowings and corporate bonds are included in notes 35 and 36 to the financial statements, respectively. In addition, the Group's bank guarantee facility is secured by pledged time deposits of the Group as detailed in note 29(a)(ii).

50. CAPITAL COMMITMENTS

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

	2021 HK\$'000	2020 HK\$'000
Contracted, but not provided for:		
New service concession arrangements on:		
TOT basis	597,212	681,775
BOT basis	8,472,744	9,044,515
Build-Own-Operate basis	34	38,467
Capital contribution to joint ventures	11,581,857	11,306,099
	20,651,847	21,070,856

NOTES TO FINANCIAL STATEMENTS

31 December 2021

50. CAPITAL COMMITMENTS *(Continued)*

In addition, the Group's share of the joint ventures' own capital commitments, which are not included in the above, is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Contracted, but not provided for	1,830,801	1,690,600

Save as disclosed above, at 31 December 2021, the Group did not have any significant commitments.

51. RELATED PARTY TRANSACTIONS

(a) For the year ended 31 December 2020, the Group had engaged a related company of the Group to provide water treatment engineering services for a water supply plant located in Malaysia at a service fee of HK\$36,676,000 (MYR19,872,000), which was charged according to the published prices and conditions offered by the related company to its major customers. No water treatment engineering service was provided by the related company and no amount was charged during the year.

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

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the year, the Group had transactions with the Other SOEs including, but not limited to, the sale of piped water, provision of sewage treatment and construction services, bank deposits and borrowings, and utilities consumptions. The directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies are not carried out on non-market terms and do not depend on whether or not the customers are the Other SOEs. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions is material related party transaction that would require separate disclosure.

(c) Compensation of key management personnel of the Group

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Short term employee benefits	24,769	21,357
Equity-settled share award expense	1,782	8,933
Pension scheme contributions	305	288
Total compensation paid to key management personnel	26,856	30,578

Further details of directors' emoluments are included in note 9 to the financial statements.

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51. RELATED PARTY TRANSACTIONS *(Continued)*

- (d) On 23 December 2020, the Company and Beijing Enterprises Group Finance Co. Ltd. (“BG Finance”) entered into a 2020 deposit services master agreement (the “2020 Deposit Agreement”) whereby the Company and BG Finance continue to carry out the transactions of similar nature from time to time under the 2020 Deposit Agreement for three years from 1 January 2021 to 31 December 2023, with the terms and conditions substantially the same as those under the deposit services master agreements and its supplemental agreements signed by both parties in 2015 and 2017. BG Finance is a non-wholly owned subsidiary of BEGCL and an associate of BEHL and acts as a platform for members of BEGCL and BEHL for the provision of intra-group facilities through financial products including deposit-taking, money lending and custodian services.

The daily aggregate of deposits placed by the Group with BG Finance (including any interest accrued thereon) during the terms of the 2020 Deposit Agreement shall not exceed HK\$1,520,000,000.

The deposits placed by the Group with BG Finance as at the end of the year amounted to HK\$1,357,603,000 (2020: HK\$2,599,712,000). The related interest income recognised in profit or loss during the year was not significant to the Group.

The above related party transaction also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

Loans borrowed from BG Finance by the Group as at the end of the reporting period amounted to HK\$4,501,875,000 (2020: HK\$3,830,517,000) and bear interest at floating rates ranging from 3.95% to 4.90% per annum (2020: from 4.36% to 5.05% per annum). The related interest expenses recognised in profit or loss during the current and prior years were not significant to the Group.

- (e) On 13 January 2020, the capital injection in cash by ABC Financial Asset Investment Co., Ltd (農銀金融資產投資有限公司) (“ABC Financial”) into Beijing Enterprises (Guangxi) Holdings Co., Ltd. (北控水務(廣西)集團有限公司) (the “Bei Kong Guangxi Capital Injection”), a subsidiary of the Group, was completed. Prior to completion of the Bei Kong Guangxi Capital Injection, the Group had entered into transactions with Agricultural Bank of China Limited* (中國農業銀行股份有限公司) (“ABC”) and its subsidiaries (“ABC Group”) relating to the provision of deposit services, settlement and other financial services. Upon completion of the Bei Kong Guangxi Capital Injection, ABC Financial holds 45.55% of Bei Kong Guangxi. As ABC is the ultimate controlling shareholder of ABC Financial, members of ABC Group have become connected persons of the Group. Hence, such transactions became continuing connected transactions of the Group following completion of the Bei Kong Guangxi Capital Injection pursuant to Chapter 14A of the Listing Rules. The maximum daily aggregate deposits placed by the Group with ABC Group (including any interest accrued thereon) for three financial years ending 31 December 2020 to 2022 shall not exceed RMB3,000,000,000 (equivalent to approximately HK\$3,338,527,000), respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

51. RELATED PARTY TRANSACTIONS *(Continued)*

(e) *(Continued)*

The deposits placed by the Group with ABC Group as at 31 December 2021 amounted to RMB98,332,000 (approximately HK\$119,917,000) (2020: RMB219,828,000 (approximately HK\$261,700,000)). The related interest income recognised in profit or loss during the current and prior years were not significant to the Group.

The above related party transaction also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

Loans borrowed from ABC by the Group as at the end of the reporting period amounted to HK\$3,011,174,000 (2020: HK\$2,716,667,000) and bear interest at floating rates ranging from 1.11% to 4.90% per annum (2020: from 1.16% to 4.90% per annum). Interest expenses of recognised in profit or loss during the current and prior years were not significant to the Group.

(f) On 30 November 2020, Linyi Bei Kong Beicheng Water Co., Ltd. (臨沂北控北城水務有限公司) (“Linyi Bei Kong”), a subsidiary of the Group, entered into a loan agreement with ABC. Pursuant to the loan agreement, ABC has agreed to grant a loan facility in a principal amount of RMB150,000,000 (equivalent to HK\$176,800,000) to Linyi Bei Kong (the “Linyi Loan Facility”) as at 31 December 2021 and 2020. The Linyi Loan Facility shall be secured by the pledge of security given by Linyi Bei Kong and the guarantee will be given by Beijing Enterprises Water Group (China) Investment Limited, a wholly-owned subsidiary of the Group, in favour of ABC.

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

(g) On 30 November 2020, Shandong Zhong Cai Mo Rui Water Limited (山東中材默銳水務有限公司) (“SD Zhong Cai”), a subsidiary of the Group, entered into a finance lease agreement with BG Finance. Pursuant to the finance lease agreement, SD Zhong Cai has agreed to transfer and change the registration of the ownership of membrane material and construction, contact oxidation tank system, homogeneous filter tank system and pipeline under the name of BG Finance from SD Zhong Cai for a transfer consideration of RMB65,000,000 (equivalent to HK\$79,268,000) (2020: RMB65,000,000 (equivalent to HK\$76,615,000)), and BG Finance has then agreed to lease to SD Zhong Cai with the lease principal of RMB65,000,000 (equivalent to HK\$79,268,000) (2020: RMB65,000,000 (equivalent to HK\$76,615,000)) and the lease interest of approximately RMB37,642,000 (equivalent to HK\$45,352,000) (2020: RMB17,019,000 (equivalent to approximately HK\$20,060,000)).

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

51. RELATED PARTY TRANSACTIONS *(Continued)*

- (h) The Group had provided management services to joint ventures of the Group for HK\$25,872,000 (RMB21,474,000) (2020: HK\$28,650,000 (RMB25,498,000)) and the fee was charged based on terms mutually agreed between the Group and the joint ventures during the year ended 31 December 2021.
- (i) The Group had leased certain office premises to an associate of the Group for HK\$13,062,000 (RMB10,841,799) (2020: HK\$11,808,000 (RMB10,509,000)) which was charged based on terms mutually agreed between the Group and the associate during the year ended 31 December 2021.
- (j) The Group had provided construction services for comprehensive renovation projects located in Nanjing City and Fuzhou City in the PRC to joint ventures of the Group for an aggregate amount of HK\$90,573,000 (RMB75,176,000) (2020: HK\$443,771,000 (RMB394,956,000)) during the year ended 31 December 2021 and the fees were charged based on terms mutually agreed between the Group and the joint ventures during the year ended 31 December 2021.
- (k) On 29 January 2021, Chifeng Beikong Water Purification Co., Ltd.* (赤峰北控水質淨化有限公司) (“Chifeng Beikong Water Purification”), a subsidiary of the Group, entered into a finance lease agreement with ABC Financial Leasing Co., Ltd.* (農銀金融租賃有限公司) (“ABC Financial Leasing”). Pursuant to the finance lease agreement, Chifeng Beikong Water Purification has agreed to transfer and change the registration of the ownership of facilities for phase I project of Hongmiaozi sewage treatment plant in Chifeng City, the PRC and facilities and equipment for phase II expansion project of Hongmiaozi sewage treatment plant in Chifeng City, the PRC, under the name of ABC Financial Leasing from Chifeng Beikong Water Purification for a transfer consideration of RMB110,000,000 (equivalent to approximately HK\$134,146,000), and ABC Financial Leasing has then agreed to lease to Chifeng Beikong Water Purification with the lease principal of RMB110,000,000 (equivalent to approximately HK\$134,146,000) and the lease interest of approximately RMB29,463,000 (equivalent to approximately HK\$35,498,000).

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

- (l) On 5 February, 24 March and 27 July 2021, Chifeng Bei Kong Sanzuodian Water Supply Co., Ltd. (*赤峰北控三座店供水有限公司) (“Chifeng Bei Kong”), a subsidiary of the Group, entered into loan agreements with Chifeng Songshan sub-branch of Agricultural Bank of China Limited* (中國農業銀行股份有限公司赤峰松山支行) (“ABC, Chifeng sub-branch”). Pursuant to the loan agreements, ABC, Chifeng sub-branch has agreed to grant loan facilities in an aggregate principal amount of RMB90,270,000 (equivalent to HK\$110,085,000) to Chifeng Bei Kong (the “Chifeng Loan Facilities”). The Chifeng Loan Facilities shall be secured by the pledge of security given by Chifeng Bei Kong and the guarantee will be given by BEWG Environmental, a non-wholly owned subsidiary of the Company, in favour of ABC, Chifeng sub-branch.

* For identification only

NOTES TO FINANCIAL STATEMENTS

31 December 2021

51. RELATED PARTY TRANSACTIONS *(Continued)*

(l) *(Continued)*

The above related party transactions also constitutes a connected transactions as defined in Chapter 14A of the Listing Rules.

(m) On 25 August 2021, Linyi Bei Kong Beicheng Water Co., Ltd.* (臨沂北控北城水務有限公司) (“Linyi Bei Kong”, a non-wholly owned subsidiary of the Company), as borrower, entered into the loan agreement with ABC, Linyi Lanshan sub-branch (“Linyi sub-branch”), as lender, pursuant to which ABC, Linyi sub-branch agreed to grant the loan facility in a principal amount of RMB150,000,000 to Linyi Bei Kong for a term of fifteen years from the date of drawdown based on a floating interest rate equal to the relevant loan prime rate for a period longer than five years announced by the National Interbank Funding Centre on the date immediately preceding the drawdown date minus 0.6%.

The loan facility would be secured by the pledge of account receivables from Linyi Liuqing River No. 2 sewage treatment plant expansion and supporting PPP project and the guarantee would be given by Beijing Enterprises Water Group (China) Investment Limited* 北控水務(中國)投資有限公司, a wholly-owned subsidiary of the Company, in respect to the payment obligations of Linyi Bei Kong in favour of ABC, Linyi sub-branch.

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

Save as disclosed above and the transactions and balances detailed elsewhere in the financial statements, the Group had no material transactions and outstanding balances with related parties during the years ended 31 December 2021 and 2020.

* *For identification only*

NOTES TO FINANCIAL STATEMENTS

31 December 2021

52. FAIR VALUE AND FAIR VALUE HIERARCHY

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

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
At 31 December 2021				
Investment properties	–	–	872,622	872,622
Financial asset at fair value through profit or loss	–	–	52,268	52,268
Equity investments designated at fair value through other comprehensive income	619,512	62,280	489,636	1,171,428
Total	619,512	62,280	1,414,526	2,096,318
At 31 December 2020				
Investment properties	–	–	855,598	855,598
Financial asset at fair value through profit or loss	–	–	68,036	68,036
Equity investments designated at fair value through other comprehensive income	880,910	62,279	467,710	1,410,899
Total	880,910	62,279	1,391,344	2,334,533

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 fair value measurement (2020: Nil).

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, corporate bonds, notes payable, cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, trade payables, other payables and amounts due from/to related parties which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors of the Company review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations.

Banks and other borrowings, corporate bonds, notes payable, cash and bank balances are stated at amortised cost and are not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

At 31 December 2021, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings, lease liabilities, and cash and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax for the year ended 31 December 2021 by approximately HK\$398,471,000 (2020: HK\$306,324,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China, the Group's statement of financial position can be affected significantly by movements in the RMB/HK\$ exchange rate.

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

	Increase/ (decrease) in profit before tax <i>HK\$'000</i>	Increase/ (decrease) in equity <i>HK\$'000</i>
31 December 2021		
If Hong Kong dollar weakens against RMB by 5%	374,358	3,175,936
If Hong Kong dollar strengthens against RMB by 5%	(374,358)	(3,175,936)
31 December 2020		
If Hong Kong dollar weakens against RMB by 5%	385,502	2,870,133
If Hong Kong dollar strengthens against RMB by 5%	(385,502)	(2,870,133)

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

Credit risk

The main credit risk exposure to the Group arises from default or delinquency in principal payments of trade receivables, receivables under service concession arrangements and amounts due from contract customers. In respect of these receivables, the Group trades mainly with municipal governments in different provinces which do not have significant credit risk. In addition, these receivables are monitored on an ongoing basis. Therefore, in the opinion of the directors, the credit risk is not significant.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Maximum exposure and year-end staging

Management groups financial instruments on the basis of shared credit risk characteristics, such as instrument type and credit risk ratings for the purpose of determining significant increase in credit risk and calculation of impairment. The gross carrying amount of each financial asset in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets as at 31 December 2021 and 2020.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or past due event;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation.

To manage credit risk arising from debtors and contract assets, the credit quality of the debtors is assessed, taking into account their financial position, historical settlement records, past experience and other factors. The Group applies the general approach to provide for ECLs prescribes by HKFRS 9. The determination of the ECLs also incorporates forward-looking information.

The Group has established a policy to perform an assessment as at 31 December 2021 and 2020, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Group classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

- | | |
|---------|---|
| Stage 1 | When the financial assets are first recognised, the Group recognises an allowance based on 12 months' ECL. |
| Stage 2 | When the financial assets have shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs. |
| Stage 3 | The financial assets are considered credit-impaired. The Group records an allowance for the lifetime ECLs. |

NOTES TO FINANCIAL STATEMENTS

31 December 2021

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Maximum exposure and year-end staging (Continued)

Management also makes periodic collective assessments for the financial assets as well as individual assessment on the recoverability of the financial assets based on historical settlement records, past experience and other factors. The Group classifies the financial assets into different stages by risk and continuously monitors their credit risk. Management believes that there is no material credit risk inherent in the Group's outstanding balances as at 31 December 2021 and 2020.

As at 31 December 2021 and 2020, all restricted cash and pledged deposits and cash and cash equivalents were deposited with creditworthy financial institutions without significant credit risk.

Save as disclosed in note 48 to the financial statements, the Group does not provide any guarantees which would expose the Group or the Company to credit risk. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from the financial assets are set out in notes 18, 25, 26 and 27 to the financial statements.

Liquidity risk

In light of the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and the capital commitments of the Group of approximately HK\$22.5 billion (2020: HK\$22.8 billion) in aggregate (comprising the Group's capital commitments and the Group's share of the joint ventures' own capital commitments) as at 31 December 2021 as detailed in note 50 to the financial statements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, corporate bonds and notes payable, as well as the strict control over its receivables due in day to day business. In the opinion of the directors of the Company, new bank borrowings will be obtained to finance certain of the new construction projects and service concession arrangements, and certain of the above-mentioned capital commitments are expected to be fulfilled by the Group after 2021. Accordingly, the Group expects to have adequate sources of funding to finance the Group and manage its liquidity position. Further details of which are set out in note 2 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Within one year or on demand <i>HK\$'000</i>	In the second year <i>HK\$'000</i>	In the third to fifth years, inclusive <i>HK\$'000</i>	Beyond 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2021					
Bank and other borrowings	12,484,240	5,799,181	26,710,558	16,165,756	61,159,735
Corporate bonds	876,842	8,059,154	6,764,562	3,663,930	19,364,488
Notes payable	2,569,814	–	–	–	2,569,814
Lease liabilities	18,450	51,163	4,465	58,169	132,247
Trade payables	25,071,178	–	–	–	25,071,178
Other liabilities	6,208,426	610,423	–	–	6,818,849
Due to related parties	197,774	–	–	–	197,774
	47,426,724	14,519,921	33,479,585	19,887,855	115,314,085
31 December 2020					
Bank and other borrowings	8,430,417	11,949,150	19,887,227	13,514,083	53,780,877
Corporate bonds	8,034,559	572,862	9,841,901	3,996,660	22,445,982
Notes payable	146,352	2,507,762	–	–	2,654,114
Lease liabilities	114,008	139,787	112,274	62,510	428,579
Trade payables	26,421,706	–	–	–	26,421,706
Other liabilities	6,725,396	492,232	–	–	7,217,628
Due to non-controlling equity holders	5,832	–	–	–	5,832
Due to related parties	316,916	–	–	–	316,916
	50,195,186	15,661,793	29,841,402	17,573,253	113,271,634

NOTES TO FINANCIAL STATEMENTS

31 December 2021

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may issue new shares to increase capital or sell assets to reduce debt. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 2020.

The Group monitors capital using the gearing ratio, which is calculated based on net debt and total equity. Net debt is calculated as total bank and other borrowings, corporate bonds, notes payable and lease liabilities (excluded those derived from operating leases) less cash and cash equivalents. Total equity includes equity attributable to shareholders of the Company, perpetual capital instruments and non-controlling interests. No changes were made in the calculation of gearing ratio during the years ended 31 December 2021 and 2020. The gearing ratios at 31 December 2021 and 2020 were as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Net debt	65,370,788	57,589,159
Total equity	63,548,754	57,124,005
Gearing ratio	103%	101%

54. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the equity investments designated at fair value through other comprehensive income and a financial asset at fair value through profit or loss as disclosed in notes 23 and 22 to the financial statements, respectively, all financial assets and liabilities of the Group as at 31 December 2021 and 2020 were financial assets at amortised cost, and financial liabilities at amortised cost, respectively.

55. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and re-presented to conform to the current year's presentation.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

56. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
ASSETS		
Non-current assets:		
Property, plant and equipment	263	534
Investments in subsidiaries	18,594,617	15,778,860
Investments in joint ventures	1,281,390	1,281,390
Investments in associates	485,417	485,417
Prepayments, deposits and other receivables	105,775	105,775
Equity investments designated at fair value through other comprehensive income	883,117	1,026,698
Total non-current assets	21,350,579	18,678,674
Current assets:		
Trade receivables	2,917	2,848
Prepayments, deposits and other receivables	27,179,394	28,958,126
Cash and cash equivalents	276,897	409,018
Total current assets	27,459,208	29,369,992
TOTAL ASSETS	48,809,787	48,048,666

NOTES TO FINANCIAL STATEMENTS

31 December 2021

56. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
EQUITY AND LIABILITIES		
Equity:		
Issued capital	1,013,582	1,002,160
Perpetual capital instrument <i>(note)</i>	1,216,904	1,187,358
Reserves <i>(note)</i>	9,589,727	8,145,807
TOTAL EQUITY	11,820,213	10,335,325
Non-current liabilities:		
Bank and other borrowings	494,880	6,037,050
Corporate bonds	10,323,826	5,916,673
Other payables and accruals	19,287,551	15,551,780
Deferred tax liabilities	3,623	7,920
Total non-current liabilities	30,109,880	27,513,423
Current liabilities:		
Other payables and accruals	1,046,362	1,158,624
Bank and other borrowings	5,833,332	2,022,000
Corporate bonds	–	7,019,294
Total current liabilities	6,879,694	10,199,918
TOTAL LIABILITIES	36,989,574	37,713,341
TOTAL EQUITY AND LIABILITIES	48,809,787	48,048,666

NOTES TO FINANCIAL STATEMENTS

31 December 2021

56. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

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

	Share premium account <i>HK\$'000</i>	Shares held under share award scheme <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i> <i>(a)</i>	Fair value reserve <i>HK\$'000</i>	Share option and share award reserve <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Perpetual capital instrument <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2020	2,537,183	(110,014)	6,572,117	(22,011)	262,995	(1,852,988)	-	7,387,282
Profit for the year	-	-	-	-	-	2,448,182	29,597	2,477,779
Other comprehensive loss for the year:								
Changes in fair value of equity investments at fair value through other comprehensive income	-	-	-	(26,742)	-	-	-	(26,742)
Issuance of a perpetual capital instrument	-	-	-	-	-	-	1,187,358	1,187,358
Shares purchased for share award scheme	-	(67,583)	-	-	-	-	-	(67,583)
Transfer of share award reserve upon forfeiture of share awards	-	-	-	-	(1,317)	1,317	-	-
Equity-settled shares award arrangements	-	-	-	-	27,244	-	-	27,244
Exercise of share options	1,189	-	-	-	(332)	-	-	857
Exercise of share awards	-	56,329	-	-	(53,171)	(3,158)	-	-
Distribution paid to holders of a perpetual capital instrument	-	-	-	-	-	-	(29,597)	(29,597)
Final 2019 cash distributions paid	-	-	(781,653)	-	-	-	-	(781,653)
Interim 2020 cash distributions paid	-	-	(841,780)	-	-	-	-	(841,780)
At 31 December 2020 and 1 January 2021	2,538,372	(121,268)	4,948,684	(48,753)	235,419	593,353	1,187,358	9,333,165
Profit for the year	-	-	-	-	-	3,034,690	48,563	3,083,253
Other comprehensive loss for the year:								
Exchange difference related to foreign operations	-	-	-	-	-	-	29,546	29,546
Changes in fair value of equity investments at fair value through other comprehensive income	-	-	-	(145,524)	-	-	-	(145,524)
Issuance of a perpetual capital instrument	-	-	-	-	-	-	-	-
Shares purchased for share award scheme	-	(36,848)	-	-	-	-	-	(36,848)
Exercise of share options	352,687	-	-	-	(107,786)	-	-	244,901
Exercise of share awards	-	44,189	-	-	(37,115)	(7,074)	-	-
Equity-settled shares award arrangements	-	-	-	-	37,539	-	-	37,539
Distribution declared to holders of a perpetual capital instrument	-	-	-	-	-	-	(48,563)	(48,563)
Final 2020 cash distributions paid	-	-	(781,856)	-	-	-	-	(781,856)
Interim 2021 cash dividends paid	-	-	-	-	-	(908,982)	-	(908,982)
At 31 December 2021	2,891,059	(113,927)	4,166,828	(194,277)	128,057	2,711,987	1,216,904	10,806,631

- (a) Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus account of the Company subject to the Company's Bye-laws, provided that the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

57. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2022.

FIVE-YEAR FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December				
	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	21,192,372	24,596,857	28,192,464	25,360,587	27,880,147
Operating profit	4,237,109	5,864,681	6,619,711	5,428,737	6,012,364
Share of profits and losses of:					
Joint ventures	521,629	454,565	551,395	729,681	861,712
Associates	556,578	459,664	384,986	330,781	58,069
Profit before tax	5,315,316	6,778,910	7,556,092	6,489,199	6,932,145
Income tax expense	(874,772)	(1,548,890)	(1,713,503)	(1,248,658)	(1,464,224)
Profit for the year	4,440,544	5,230,020	5,842,589	5,240,541	5,467,921
ATTRIBUTABLE TO:					
Shareholders of the Company	3,717,227	4,471,265	4,925,718	4,183,466	4,195,940
Holders of perpetual capital instruments	240,291	246,012	234,830	232,180	211,473
Non-controlling interests	483,026	512,743	682,041	824,895	1,060,508
	4,440,544	5,230,020	5,842,589	5,240,541	5,467,921

FIVE-YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND TOTAL EQUITY

	Year ended 31 December				
	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Total assets	100,461,072	126,380,708	151,160,926	174,401,121	183,623,186
Total liabilities	(67,419,749)	(88,568,571)	(104,629,750)	(117,277,116)	(120,074,432)
NET ASSETS	33,041,323	37,812,137	46,531,176	57,124,005	63,548,754
Equity attributable to shareholders of the Company	20,784,723	25,489,537	30,548,450	37,343,812	40,029,378
Perpetual capital instruments	6,623,082	6,350,900	6,250,999	6,623,082	3,034,399
Other non-controlling interests	5,633,518	5,971,700	9,731,727	13,157,111	20,484,977
TOTAL EQUITY	33,041,323	37,812,137	46,531,176	57,124,005	63,548,754



北控水務集團有限公司
BEIJING ENTERPRISES WATER GROUP LIMITED
(Incorporated in Bermuda with limited liability)
(Stock code: 371)