北京控股環境集團有限公司
BEIJING ENTERPRISES ENVIRONMENT GROUP LIMITED
（Stock Code 154）

ANNUAL
REPORT
2021

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors:
Mr. Ke Jian *(Chairman)*
Ms. Sha Ning
Mr. Chen Xinguo *(Chief Executive Officer)*
Mr. Yu Jie
Mr. Ng Kong Fat, Brian

Independent non-executive directors:
Dr. Jin Lizuo
Dr. Huan Guocang
Dr. Wang Jianping
Prof. Nie Yongfeng
Mr. Cheung Ming

AUDIT COMMITTEE

Dr. Huan Guocang *(Committee Chairman)*
Dr. Jin Lizuo
Dr. Wang Jianping

REMUNERATION COMMITTEE

Dr. Jin Lizuo *(Committee Chairman)*
Dr. Huan Guocang
Dr. Wang Jianping
Mr. Ke Jian

NOMINATION COMMITTEE

Mr. Ke Jian *(Committee Chairman)*
Dr. Jin Lizuo
Dr. Huan Guocang
Dr. Wang Jianping

COMPANY SECRETARY

Mr. Wong Kwok Wai, Robin

AUTHORISED REPRESENTATIVES

Mr. Ng Kong Fat, Brian
Mr. Wong Kwok Wai, Robin

REGISTERED OFFICE

66th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

WEBSITE

http://www.beegl.com.hk

STOCK CODE

154

SHARE REGISTRAR

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

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

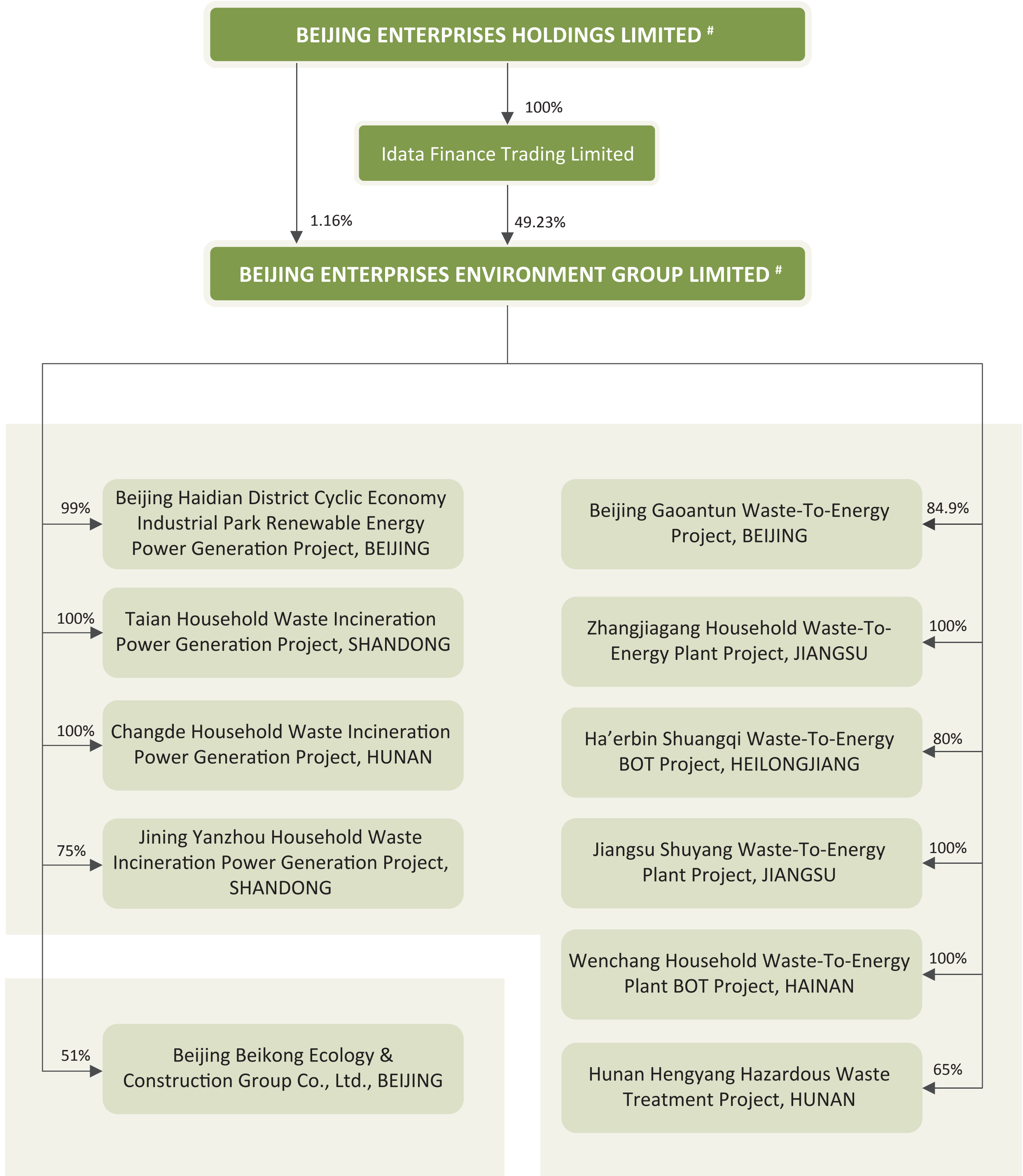
PRINCIPAL BANKERS

In Hong Kong:
Bank of China (Hong Kong)

In Mainland China:
Agricultural Bank of China
Bank of Beijing
Bank of China
China Construction Bank
China Minsheng Bank
Huaxia Bank
Industrial Bank

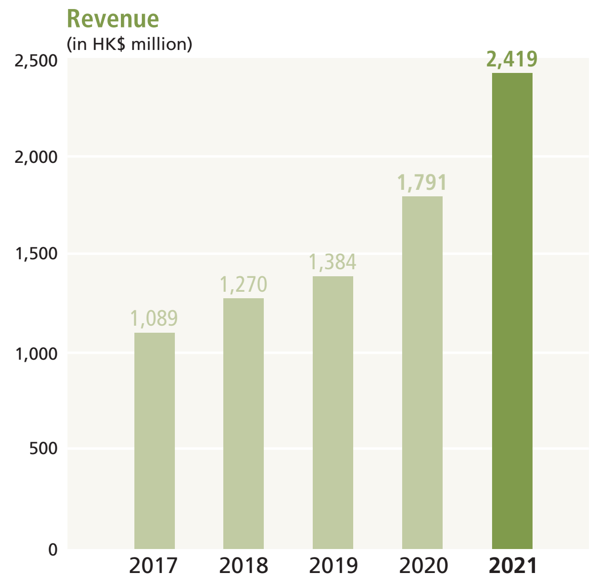
CORPORATE STRUCTURE

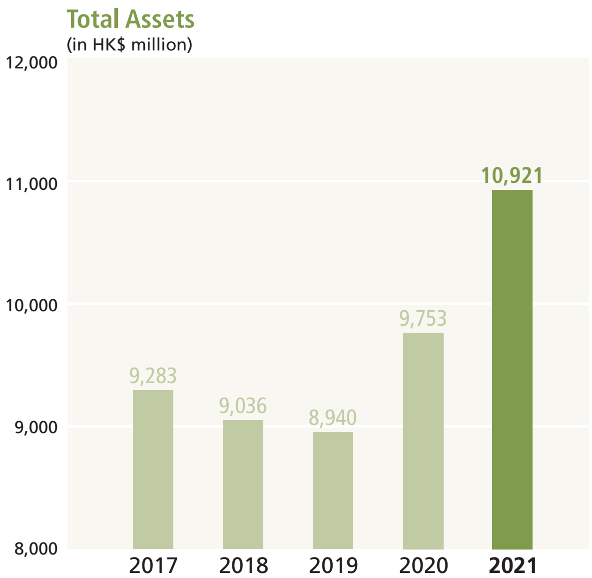
31 March 2022



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

FINANCIAL HIGHLIGHTS





CHAIRMAN'S STATEMENT

In 2021, with COVID-19 epidemic still spreading across the world and there were increasing instabilities and uncertainties in international situation, the global economic situation remained complicated and acute. The foundation for domestic economic recovery remained shaky and potential risks and challenges still exist. The gradual pulling out of various macro policies, marginal tightening of macro policies and deployment of implementing old to new strategy conversion had slowed down the macro-economic recovery momentum.

Affected by continuous COVID-19 epidemic and the garbage sorting policy, Beijing Enterprises Environment Group enhanced the capabilities in project investment, construction and operation management, polished professional teams with high quality and standards and focused on the refined and standardised management of projects under operation. The Group's total assets amounted to HK$10,920 million for the year and the revenue, profit before tax and net profit reached HK$2,420 million, HK$269 million and HK$246 million, respectively. We fully achieved our annual budget targets and recorded a growth as compared with 2020. The Group completed 3,774,800 tonnes of annual waste intake and 3,203,600 tonnes of waste incineration in boilers. The electricity generating volume was 1,368 million kWh, the on-grid electricity volume was 1,123 million kWh and the electricity generating volume per tonne of waste incinerated was 427.33 kWh. All the above data achieved an over 5% increase as compared with 2020.

With the arrival of the environmental effect era for improving environmental quality, it leads the transformation of government environmental policies into regional comprehensive prevention and control. The determination on comprehensive environmental governance will enable comprehensive service capability to become a core factor for enterprise to participate in environment market competition. In future, Beijing Enterprises Environment Group will put innovative thinking to use in developing emerging businesses and promote the development of recycling industries. We will conduct coordinated disposal of various solid wastes with waste incineration project as the core. We will focus on municipal and public services and expand new industry opportunities. We will improve technical strengths and focus on the R&D and application of innovative technologies. We will establish a comprehensive risk prevention system to improve internal management control efficiency and drive the endogenous growth of the Group.

Beijing Enterprises Environment Group will converge strengths, strive courageously, forge ahead and boldly innovate to fully propel the construction of all corporate core capabilities, facilitate corporate sustainable development and establish the Company to become a responsible and reliable provider of comprehensive environmental services.

KE JIAN
Chairman

Hong Kong
31 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Solid Waste Treatment Segment

In 2021, the Group operated 10 solid waste treatment projects in China, including 9 household waste incineration power generation projects with waste treatment capacity of 11,125 tonnes/day, and one hazardous and medical waste treatment project with waste treatment capacity of 40,840 tonnes/year.

Project Name	Region	Business Model	Waste treatment capacity (tonnes/day)
Household waste incineration power generation projects:			
Haidian Project (北京市海澱區循環經濟產業園再生能源發電廠項目)	Beijing	BOT	2,100
Gaoantun Project (北京高安屯垃圾焚燒項目)	Beijing	BOT	1,600
Yanzhou Project (濟寧市兗州區生活垃圾焚燒發電項目)	Shandong	BOT	1,500
Ha'erbin Project (哈爾濱雙琦垃圾焚燒發電項目)	Heilongjiang	BOT	1,200
Changde Project (常德市生活垃圾焚燒發電項目)	Hunan	BOT	1,200
Taian Project (泰安生活垃圾焚燒發電項目)	Shandong	BOO	1,200
Shuyang Project (江蘇省沭陽縣垃圾焚燒發電項目)	Jiangsu	BOT	1,200
Zhangjiagang Project (張家港市生活垃圾焚燒發電廠項目)	Jiangsu	BOO	900
Wenchang Project (文昌市生活垃圾焚燒發電廠項目)	Hainan	BOT	225
Hazardous and medical waste treatment project:			
Hengxing Project (湖南省衡陽危險廢物處置中心項目)	Hunan	BOT	

In 2021, affected by continuous COVID-19 epidemic and the garbage sorting policy, the Group completed 3.39 million tonnes of annual household waste intake (average 9,283 tonnes/day, increased by 2.7%), 9,900 tonnes of hazardous and medical waste intake, 459,800 tonnes of food waste treatment, 112,000 tonnes of sludge treatment and 80,600 tonnes of leachate treatment through project expansion and constant technical re-engineering. The electricity generating volume was 1,367,866 MWh (increased by 7.7%), electricity sales volume was 1,123,193 MWh (increased by 8.2%), steam supply volume was 72,800 tonnes, with overall improvement in thermal efficiency projects. Revenue from the solid waste treatment business for the year was HK$1,140 million, up by 9.2% year-on-year. Gross profit for the year was HK$439 million, up by 19% year-on-year.

Regarding the solid waste project construction, capital expenditures for the year were approximately HK$762 million. The completion and settlement process of Shuyang Project (Phase II) and Taian Project (Phase II) were progressed as scheduled. The Changde Project (Phase III) entered its trial operation stage in August 2021 and Yanzhou Project completed its unit grid integration in December 2021 which was ahead of schedule. The expansion of Zhangjiagang Project (namely 張家港市靜脈科技產業園生活垃圾焚燒發電項目, "Zhangjiagang Jingmai Project"), which is currently under construction, was slightly delayed and adjustment has been made to catch up with the schedule. During the year, the solid waste project construction recorded a revenue of HK$1,085 million, with a gross profit of HK$178 million, up by 2 times year-on-year.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Ecological Construction Segment

In 2021, Beijing Beikong Ecology & Construction Group Co., Ltd. ("Beikong Ecology") completed the preparation and team formation of its environmental testing laboratory and obtained the Qualification Certificate for Inspection and Testing Agency issued by Beijing Municipal Administration for Market Regulation. It established an ecological research institute, introduced senior experts in the industry, and prepared plans for on-site investigation focusing on environmental governance, ecological restoration and protection. In 2021, Beikong Ecology obtained the Certificate for Eco-Environmental Innovation Projects issued by Chinese Society for Environmental Sciences, and obtained 15 authorised patents in the same year.

Owing to the ongoing impact of the epidemic and its prevention and control works, there was insufficient industry market demand and the number of municipal and landscape construction projects plunged sharply. In 2021, Beikong Ecology successfully won tenders and signed contracts of approximately 55 projects with a total contract amount of approximately RMB160 million. Rising prices of main construction materials as a result of the global economic situation and the epidemic had increased cost of production which led to operating losses for the year. The ecological construction segment recorded a revenue of HK$194 million for the year, representing a decrease of 53% as compared with that of last year, and the loss attributable to the Group was HK$28 million for the year.

PROSPECT

According to the development strategies under the "14th Five-Year Plan", the Group shall become the leader in China and also the world-leading comprehensive environmental protection service provider, and realise the leap-forward development of business planning through investments and mergers and acquisitions.

In 2022, the Group will continue to consolidate the foundation of management to mitigate operational risks. In respect of revenue growth, we will focus on developing sludge disposal business to increase the sources of revenue. In respect of cost reduction and efficiency enhancement, we will control the cost of various raw materials and expenditure of expense nature on a reasonable basis.

In addition, Beikong Ecology will continue to consolidate and develop its advantageous business markets including municipal and garden landscape, and develop businesses such as comprehensive land remediation, site restoration and organic solid waste recycling projects by adhering to the strategic development positioning of "Comprehensive Service Provider of Urban and Rural Ecological Environment".

FINANCIAL REVIEW

Revenue and gross profit

During the year, the Group recorded revenue of HK$2,419 million, increased by 35% as compared with last year of HK$1,791 million. The revenue derived from the solid waste treatment and the sale of electricity and steam amounted to HK$1,140 million, increased by 9% as compared with last year of HK$1,044 million. The revenue derived from the waste incineration plant construction and related services amounted to HK$1,085 million, increased by 2.2 times as compared with last year of HK$336 million. The revenue derived from the ecological construction and related services amounted to HK$194 million, decreased by 53% as compared with last year of HK$411 million.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

The Group's gross profit amounted to HK$599 million, increased by 13% as compared with last year of HK$531 million. The overall gross profit margin decreased from 29.7% to 24.8%.

	Revenue		Gross profit/(loss)		Gross profit margin	
	2021	2020	**2021**	2020	**2021**	2020
	HK$ million	*HK$ million*	***HK$ million***	*HK$ million*		
Household waste treatment	**283**	266				
Other solid waste treatment	**188**	153				
Sale of electricity and steam	**669**	625				
	1,140	1,044	**439**	369	**38.5%**	35.3%
Waste incineration plant construction and related services	**1,085**	336	**178**	59	**16.4%**	17.6%
Ecological construction and related services	**194**	411	**(18)**	103	**–9.3%**	25.2%
	2,419	1,791	**599**	531	**24.8%**	29.7%

Other income and gains, net

The Group recorded net other income and gains of HK$75 million during the year, decreased by HK$19 million as compared with last year of HK$94 million. The other income for the year mainly comprised value added tax refund from household waste treatment business of HK$40 million (2020: HK$66 million), interest income of HK$11 million (2020: HK$11 million), government grants of HK$10 million (2020: HK$3 million) and net foreign exchange gain of HK$7 million (2020: HK$7 million).

Selling expenses

The Group's selling expenses for the year amounted to HK$3 million.

Administrative expenses

The Group's administrative expenses for the year increased by 21% or HK$33 million to HK$190 million, which was mainly due to the business expansion of waste incineration plant construction services during the year.

Other operating expenses, net

The Group incurred net other operating expenses of HK$142 million during the year, decreased by HK$99 million as compared with last year. An impairment loss of HK$116 million has been recognised during the year as the treatment volume of a hazardous waste treatment plant of the Group has been reduced during the year in order to comply with environmental protection regulations. In last year, impairment losses of HK$238 million in total have been recognised against certain assets of solid waste treatment plants.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Finance costs

The Group's finance cost for the year decreased by 7% or HK$5 million to HK$71 million, which mainly comprised interest on bank loans of HK$25 million (2020: HK$11 million), interest on borrowings from 北京控股集團財務有限公司 ("BG Finance"), a fellow subsidiary of the Company, of HK$33 million (2020: HK$33 million) and imputed interest on a convertible bond issued to Idata Finance Trading Limited ("Idata"), the immediate holding company of the Company, of HK$25 million (2020: HK$30 million). Interest on bank and other borrowings of HK$16 million (2020: HK$1 million) incurred for the construction of solid waste treatment projects have been capitalised during the year.

Income tax

The Group's income tax expense for the year amounted to HK$23 million (2020: tax credit of HK$6 million), comprising current tax expenses of HK$54 million (2020: HK$37 million) and deferred tax credit of HK$31 million (2020: HK$43 million).

EBITDA and profit for the year

EBITDA for the year was HK$535 million, increased by 22% or HK$97 million as compared with last year of HK$438 million. Profit for the year amounted to HK$246 million, increased by 59% or HK$91 million as compared with last year of HK$155 million. Profit for the year attributable to shareholders of the Company amounted to HK$264 million, increased by 105% or HK$135 million as compared with last year of HK$129 million.

By excluding the impairment of non-current assets of certain solid waste treatment projects made during the years, adjusted EBITDA for the year was HK$657 million, decreased by 3% or HK$19 million as compared with last year of HK$676 million. Adjusted profit for the year amounted to HK$338 million, increased by 2% or HK$5 million as compared with last year of HK$333 million. Adjusted profit for the year attributable to shareholders of the Company amounted to HK$325 million, increased by 11% or HK$33 million as compared with last year of HK$292 million.

	EBITDA		**Profit for the year**		**Profit attributable to shareholders of the Company**	
	2021	2020	**2021**	2020	**2021**	2020
	HK$ million	*HK$ million*	***HK$ million***	*HK$ million*	***HK$ million***	*HK$ million*
Solid waste treatment segment	**741**	595	**449**	310	**409**	295
Ecological construction services segment	**(55)**	77	**(55)**	54	**(28)**	28
Corporate and others segment	**(29)**	4	**(56)**	(31)	**(56)**	(31)
	657	676	**338**	333	**325**	292
Less: Impairment of assets	**(122)**	(238)	**(92)**	(178)	**(61)**	(163)
	535	438	**246**	155	**264**	129

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

FINANCIAL POSITION

Significant investing and financing activities

Except for the expansion construction and continuous technical modifications on the existing waste incineration plants, the Group had made no material investment, acquisition and disposal of subsidiaries and associated companies during the year.

Total assets and liabilities

As at 31 December 2021, the Group had total assets and total liabilities amounted to HK$10,920 million and HK$6,925 million, respectively, increased by HK$1,168 million and HK$764 million as compared with those as at 31 December 2020, respectively. Net assets of the Group was HK$3,995 million, increased by HK$404 million from the end of last year.

Property, plant and equipment

The Group's property, plant and equipment mainly comprised those incurred for the Shandong Taian Project and the Jiangsu Zhangjiagang Project which operated under Build-Own-Operate ("BOO") arrangements of HK$985 million (2020: HK$988 million). During the year, the net carrying amount of the Group's property, plant and equipment amounted to HK$1,099 million, of which capital expenditure of HK$47 million (2020: HK$53 million) has been incurred, no impairment (2020: HK$55 million) has been recognised and HK$74 million (2020: HK$89 million) has been depreciated in the statement of profit or loss.

Goodwill

The Group acquired certain companies engaging in the solid waste treatment business in April 2014 and October 2016 and aggregate goodwill of HK$1,123 million arose from these acquisitions. The Company has appointed an independent professional valuer to assess the goodwill impairment testing at the end of the reporting period. The recoverable amount of the cash generating unit of the solid waste treatment business has been determined based on its value-in-use, which has been determined based on the future cash flows of the solid waste treatment business and discounted to the present values. The Company considered that the key assumptions adopted by the valuation were reasonably conservative and appropriate. As value-in-use value of the relevant cash generating units exceeded its aggregate carrying amount of the relevant assets, the Company is reasonably considered that no impairment provision is necessary for the Group's goodwill as at 31 December 2021.

Right-of-use assets

The Group has right-of-use assets amounted to HK$47 million, decreased by HK$19 million from the end of last year resulting from the termination of leases.

Operating concessions

The Group's operating concessions are recognised from the solid waste treatment plants operated under Build-Operate-Transfer ("BOT") arrangements. During the year, the net carrying amount of the Group's operating concessions increased by HK$560 million to HK$2,999 million, of which additions to operating concessions of HK$715 million (2020: HK$406 million) has been incurred, one-off impairment of HK$116 million (2020: HK$115 million) has been recognised and HK$104 million (2020: HK$102 million) has been amortised in the statement of profit or loss.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Other intangible assets

The Group's other intangible assets mainly comprised the fair value of the operation right of the Jiangsu Zhangjiagang Project of HK$38 million and other licenses of HK$7 million. During the year, the net carrying amount of the Group's other intangible assets decreased by HK$8 million to HK$48 million, of which an impairment of HK$6 million (2020: HK$55 million) has been recognised and HK$3 million (2020: HK$6 million) has been amortised in the statement of profit or loss.

Receivables under service concession arrangements

The Group's receivables under service concession arrangements are recognised from the household waste treatment plants operated under BOT arrangements with guaranteed waste treatment revenue. During the year, the carrying amount of the Group's receivables under service concession arrangements increased by HK$377 million (2020: increased by HK$198 million) to HK$2,611 million, of which the additional receivable recognised from the new Yanzhou Project, Changde Project (Phase III) and Zhangjiagang Jingmai Project during the year amounted to HK$427 million.

Inventories

The Group's inventories increased by HK$3 million to HK$47 million from the end of last year, which mainly represented coal and consumables used for the solid waste treatment plants.

Trade and bills receivables

The Group's trade and bills receivable increased by HK$164 million to HK$681 million from the end of last year. According to the ageing analysis based on settlement due date, of which national subsidiary of grid electricity of HK$359 million (53%) are unbilled, HK$131 million (19%) are neither past due nor impaired, HK$98 million (14%) are past due for less than 3 months and HK$22 million (3%) are past due for over 1 year.

Prepayments, deposits and other receivables

The Group's total prepayments, deposits and other receivables increased by HK$111 million to HK$287 million from the end of last year, which mainly comprised prepayments of HK$50 million, value added tax refund and other taxes recoverable of HK$129 million, balances due from related parties of HK$74 million, deposits and other receivables of HK$34 million.

Bank and other borrowings

The Group's bank and other borrowings were all denominated in RMB. During the year, the Group repaid RMB94 million and further advanced for RMB582 million. As at 31 December 2021, the Group has bank and other borrowings amounted to RMB1,372 million, of which RMB784 million from commercial banks in Mainland China, RMB556 million from BG Finance and RMB32 million from other parties relating to the ecological construction business. The weighted average interest rate of the Group's bank and other borrowings was 4.3% per annum.

Convertible bond

The Company's non-interest-bearing convertible bond issued to Idata with principal amount of HK$2,202 million and share conversion price of HK$1.13 has been expired in October 2021. As at 31 December 2021, the outstanding convertible bond remained unsettled and included in "Other payables and accruals".

Deferred income

The Group's deferred income decreased by HK$2 million to HK$148 million from the end of last year, which mainly represented PRC government grants and subsidies on solid waste treatment business.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Trade payables

The Group's trade payables decreased by HK$24 million to HK$737 million from the end of last year, 31% of which HK$228 million were unbilled.

Other payables and accruals

The Group's total other payables and accruals increased by HK$2,313 million to HK$4,041 million from the end of last year, which mainly comprised an amount due to Idata of HK$2,693 million (2020: HK$491 million) and amounts due to fellow subsidiaries of HK$1,165 million (2020: HK$1,081 million), which are unsecured and non-interest-bearing.

Liquidity and financial resources

The Group adopts conservative treasury policies in cash management. As at 31 December 2021, the Group had cash and cash equivalents amounted to HK$1,578 million (approximately 86% of which were denominated in Renminbi and 14% of which were denominated in Hong Kong dollars and United States dollars); bank and other borrowings amounted to RMB1,372 million; non-interest-bearing amounts due to Idata and certain fellow subsidiaries of the Company amounted to HK$2,693 million and RMB955 million, respectively.

As at 31 December 2021, the Group's current liabilities of HK$5,068 million exceeded its current assets of HK$2,973 million. Subsequent to the end of the reporting period, the Company entered into a loan agreement with Idata on 28 March 2022 to refinance the amount due to it of HK$2,693 million, which is included in current liabilities as at 31 December 2021. The loan is unsecured, has a three-year tenure and bears interest at 1.7% per annum. In consideration of the stable cash recurring nature of solid waste treatment operations and the financial support of the holding company, the directors of the Company considered that the Group will be able to operate on a going concern basis and the Group has sufficient cash resources to finance its operations in the foreseeable future.

Key performance indicators

	2021	2020
Gross profit margin	**24.8%**	29.7%
Operating profit margin	**14.0%**	12.6%
Net profit margin	**10.2%**	8.7%
Return on average equity	**7.8%**	4.3%
Current ratio *(times)*	**0.59**	0.56
Debt ratio *(total liabilities/total assets)*	**63.4%**	63.2%
Net gearing ratio *(net borrowings/total equity)*	**69.8%**	61.3%

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Capital expenditure and commitment

During the year, the Group's total capital expenditures amounted to HK$762 million, of which HK$750 million was spent on construction and modification of waste incineration plants and HK$12 million was spent on purchase of other assets. As at 31 December 2021, the Group has capital commitment for service concession arrangements amounted to HK$1,043 million.

Charges on the Group's assets

As at 31 December 2021, save as (i) the Group's buildings with a net carrying amount of HK$284 million, the Group's right-of-use assets of HK$8 million and the Group's trade receivables arising from the provision of solid waste treatment service with a net carrying amount of HK$131 million are pledged for the Group's bank loans, and (ii) the Group's bank deposits of HK$6 million are pledged as security deposits to the government authorities and a customer for the provision of construction and related services of solid waste treatment plants, the Group did not have any charges on the Group's assets.

Foreign exchange exposure

The Group's businesses are principally located in Mainland China and the majority of its transactions are conducted in Renminbi. As the financial statements of the Group are presented in Hong Kong dollars, which is the Company's functional and presentation currency, any fluctuation of exchanges rates would impact the Group's net asset value. During the year, the gains arising on settlement or translation of monetary items of HK$7 million (2020: HK$7 million) are taken to the statement of profit or loss and the comprehensive gains arising on translation of foreign operations of HK$108 million (2020: HK$248 million) are recognised in the exchange fluctuation reserve. Currently, the Group has not used derivative financial instruments to hedge against its foreign currency risk.

Contingent liabilities

As at 31 December 2021, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group had 1,399 employees (2020: 1,273). Total staff cost for the year was HK$292 million, increased by 31% as compared with HK$223 million in last year. The Group's remuneration policy and package are periodically reviewed and generally structured by reference to market terms and individual performance. Discretionary bonuses are awarded to certain employees according to the assessment of individual performance.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. KE Jian, aged 53, is the Chairman of the Company and concurrently a Vice President of Beijing Enterprises Holdings Limited ("BEHL", stock code: 392) and an Executive Director of Beijing Enterprises Water Group Limited ("BE Water Group", stock code: 371). Mr. Ke is a PRC Chief Senior Accountant, Certified Tax Agent and Senior International Finance Manager. Mr. Ke obtained a bachelor's degree in economics from Beijing College of Finance and Commerce and an MBA degree from Murdoch University, Australia. Mr. Ke joined BEHL since 1997 and has extensive experience in finance and corporate management. Mr. Ke joined the Group in August 2013.

Ms. SHA Ning, aged 51, is concurrently a Vice President of BEHL and an Executive Director of BE Water Group. Ms. Sha is a PRC Chief Senior Accountant, graduated from the Business and Economics Faculty of Heilongjiang Institute of Commerce, studied Accounting in Beijing School of Business and Capital University of Economics and Business and obtained an EMBA degree from The Hong Kong University of Science and Technology. Ms. Sha joined BEHL since 2001 and has extensive experience in financial management. Ms. Sha joined the Group in March 2009.

Mr. CHEN Xinguo, aged 54, is the Chief Executive Officer of the Company and concurrently a Vice President of BEHL. Mr. Chen is a PRC Senior Economist, graduated from the Department of Industrial Economics and Planned Economics of Renmin University of China and obtained a doctoral degree in economics from Renmin University of China. Prior to joining the Company, Mr. Chen was an officer and a Deputy Commissioner of Beijing Planning Committee and Beijing Development and Planning Committee from 1994 to 2003. From 2003 to 2021, Mr. Chen was an assistant manager of the investment department of Beijing Holdings Limited, a manager of the strategic development department of Beijing Enterprises Group Company Limited, a Deputy General Manager of Beijing Gas Group Company Limited and Beijing Beiran Enterprise Company Limited and an Executive Director (2013 to 2015) and a Vice President (2013 to July 2021) of China Gas Holdings Limited (stock code: 384). Mr. Chen has substantial experience in business management and development. Mr. Chen joined the Group in August 2021.

Mr. YU Jie, aged 52, is concurrently the chairman of labour union of BEHL. Mr. Yu is a PRC Economist, an International Senior Human Resources Manager and obtained an MBA degree from City University, Bellevue. Prior to joining the Company, Mr. Yu was a manager of human resources department of Beijing Enterprises Teletron Information Technology Co., Ltd. and a deputy office manager of Beijing Enterprises Investment and Management Co., Ltd. from 2001 to 2007, a deputy manager and manager of human resources department and a President Assistant of BEHL from 2007 to 2018. Mr. Yu has substantial experience in human resources management. Mr. Yu joined the Group in October 2021.

Mr. NG Kong Fat, Brian, aged 66, is a member of the Institute of Chartered Accountants of Scotland, graduated from the University of Stirling in Scotland in 1983 and. also served as an independent non-executive director of OneForce Holdings Limited (stock code: 1933). Mr. Ng has substantial experience in corporate, investment and financial management. Mr. Ng joined the Group in July 1993.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT *(CONTINUED)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. JIN Lizuo, aged 64, obtained a bachelor's degree in economics from Peking University in 1982 and a doctoral degree in economics from Oxford University in 1993. Dr, Jin is the founding president of Chinese Economic Association (UK) and has been engaged in corporate development strategy and management consulting work for a long time. Dr. Jin has been served as an independent non-executive director of NetBrian Technologies Inc. since February 2002, a supervisor of China International Capital Corporation Limited (stock code: 3908) since May 2015 and an independent non-executive director of Dadi International Group Limited (stock code: 8130) since February 2020. Dr. Jin joined the Group in September 2004.

Dr. HUAN Guocang, aged 72, is the chief executive officer and one of the founding partners of GCS Capital. Dr. Huan obtained a PhD degree from Princeton University and holds two Master of Arts degrees from Columbia University and the University of Denver. Dr. Huan held the position of Post-Doctoral Fellow at the Center for international and Strategic Studies, Harvard University and pursued a graduate studies program at the Graduate School of Chinese Academy of Social Sciences in Beijing. Prior to founding GCS Capital, Dr. Huan was the chairman and a founding member of Primus Pacific Partners, the head of Asia-Pacific Investment Banking at HSBC, co-head of Asia-Pacific Investment Banking at Citigroup Global Markets Inc., managing director and head of China at BZW Asia and a senior economist at JP Morgan Asia. Dr. Huan joined the Group in January 2008.

Dr. WANG Jianping, aged 64, is a senior partner of King & Wood Mallesons. Dr. Wang holds a bachelor degree in law from the Law School of Peking University in 1982, a master degree in law from the Law School of Harvard University in 1984 and a doctoral degree in law from the Law School of Washington University in Missouri in 1991. Before being admitted as a Chinese lawyer and joining King & Wood Mallesons in 1998, Dr. Wang was further admitted to the Missouri Bar in 1991 and then practiced in St. Louis, Missouri from 1991 to 1997. From 1984 to 1988, Dr. Wang worked with the Legislative Affairs Committee of the Standing Committee of National People's Congress and has participated in the legislation of the Grassland Law, Fishery Law, Bankruptcy Law, Law of Chinese-foreign Cooperative Joint Venture, and Customs Law, etc. Dr. Wang joined the Group in January 2008.

Prof. NIE Yongfeng, aged 76, is a professor at School of Environment, Tsinghua University, a doctoral supervisor for a doctoral program in Radiation Protection and Environment Protection, and a doctoral supervisor for Environmental Science and Engineering. Prof. Nie retired in April 2011, and is currently the deputy director of the Academic Committee of the Ministry of Education Key Laboratory for "Solid Waste Management and Environment Safety", Tsinghua University, a member of each of the Science and Technology Committee, the Municipal Work Committee, and the Resources and Sustainable Development Committee, Ministry of Housing and Urban-Rural Development, a member of the Expert Committee, the China Association of Urban Environmental Sanitation, a member of the Urban Garbage Treatment Professional Committee, the China Association of Environmental Protection Industry. Prof. Nie has solid theoretical foundation and extensive practical experience in urban domestic garbage, industrial solid waste and dangerous waste management, treatment, disposal and resource utilisation technology, and groundwater remediation theory and technology. Prof. Nie joined the Group in January 2014.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT *(CONTINUED)*

INDEPENDENT NON-EXECUTIVE DIRECTORS *(CONTINUED)*

Mr. CHEUNG Ming, aged 61, is the vice chairman of a mineral company in Hong Kong. From 2013 to 2017, Mr. Cheung had served as an executive director and the chief executive officer of BEP International Holdings Limited ("BEP", stock code: 2326, renamed as New Provenance Everlasting Holdings Limited). Prior to joining BEP, he had served as the executive director of Hengli & Liqi Furniture Limited ("Hengli"), a Hong Kong company specialising in the production of furniture for sale to Europe markets, and was responsible for the international business development of Hengli. Before joining Hengli, Mr. Cheung had served as the chief executive officer of a Hong Kong based retailing company. Mr. Cheung has extensive business management experience including over 30 years of experience in retail business and international trade in Mainland China, Hong Kong and Taiwan. Mr. Cheung had been leading the companies he served in setting down long-term development blueprints including strategies for corporate and business development as well as brand building to enhance their market competitiveness and profitability, which laid the solid foundation for their sustainable growth in the Greater China and Asia-Pacific regions. Mr. Cheung joined the Group in August 2014.

SENIOR MANAGEMENT

Mr. WANG Juwei, aged 53, is the Vice President of the Company. Mr. Wang is a PRC Senior Engineer and graduated from Urban Construction and Engineering Faculty of Beijing Institute of Civil Engineering and Architecture. Prior to joining the Company, Mr. Wang worked at the Beijing Gas Group from 2000 to 2010, served as the Director and Deputy General Manager of Beijing Gas Miyun Co., Ltd., the Deputy General Manager and General Manager of Engineering Construction Management Branch of Beijing Gas Group Company Limited, and the Chairman of Beijing Tianxing Gas Engineering Co., Ltd. from 2010 to 2021. Mr. Wang has substantial experience in planning, market development and engineering construction. Mr. Wang joined the Company in October 2021.

Ms. XU Jiaqi, aged 38, is the Vice President of the Company. Ms. Xu is a PRC Senior Engineer and graduated from Dalian University of Technology and Tianjin University with a Master's Degree of Science in Thermal Engineering. Prior to joining the Company, Ms. Xu served as an assistant to the Director of State Grid Beijing Economics and Technology Research Institute, Chief Engineer of Beijing Gas Energy Development Co., Ltd., Deputy General Manager of District Energy Department of Beijing Enterprises Clean Energy Group Limited and General Manager of Beijing TUS National Gas Energy Technology Co., Ltd. Ms. Xu has substantial experience in thermal engineering and investment and management. Ms. Xu joined the Company in February 2022.

Mr. WONG Kwok Wai, Robin, aged 55, is the Financial Controller and the Company Secretary of the Company. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has been worked for an international accounting firm and has substantial experience in financial management and company secretarial. Mr. Wong joined the Group in July 1993.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Save as disclosed hereunder, the board (the "Board") of directors (the "Directors") of the Company believes that the Company has complied with the code provisions (the "Code Provisions") of the Corporate Governance Code as set out in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2021.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors. All the Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2021.

BOARD OF DIRECTORS

The principal focus of the Board is on the overall strategic development of the Group, while the management is principally responsible for the Group's business operations. The Board provides guidance on business plans and monitors the results of such plans implemented by the management; reviews and approves the Company's financial objectives, plans and major financial activities; establishes the internal control system and the risk management system of the Company and discusses with the management regularly to ensure that such systems are operating effectively. The Board promotes a culture of integrity at the Company and requires all Directors and the management to comply with guidance related to integrity and ethics, including conflicts of interest, related party transactions and the treatment of confidential information.

The Board has adopted a board diversity policy. With the aim of enhancing Board effectiveness and corporate governance level as well as achieving our Group's business objectives, the Company sees increasing diversity at the Board level as an essential element in supporting its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, and any other factors that the Board may consider relevant and applicable from time to time. All Board appointments will be based on merit, and candidates will be considered against objective criteria, having due regard to the benefits of Board diversity.

During the reporting period, the Company has a solid slate of Directors with diverse perspectives, and varied educational background and professional qualifications. All of the Directors have accumulated experience in their respective field of expertise, and made use of their talent and experience to drive the industry so as to bring sustainable growth to the Company.

The Board currently comprises five executive Directors and five independent non-executive Directors. Details of backgrounds and qualifications of Directors are set out on pages 14 to 16. There is no relationship (including financial, business, family or other material/relevant relationship) among the Directors. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD OF DIRECTORS *(CONTINUED)*

During the year ended 31 December 2021, the Board has complied with Rules 3.10(1) and (2) of the Listing Rules to appoint at least three independent non-executive Directors and at least one independent non-executive Director possesses appropriate professional accounting qualifications or financial management expertise. The independent non-executive Directors have appropriate and sufficient experience and qualification to carry out their duties so as to fully represent the interests of the shareholders. The Board considers that all independent non-executive Directors meet the specific independence criteria as required by the Listing Rules. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent.

Every newly appointed Director is given a comprehensive, formal and tailored-made induction on appointment pursuant to Code Provision A.6.1. In addition, the Directors are provided with briefings and trainings from time to time to ensure that they have a proper understanding of the Company's operations and business and are fully aware of their responsibilities under relevant statues, laws, Listing Rules and other regulations. Pursuant to Code Provision C.1.2, the Directors are provided with monthly reports updates which give a balanced and understandable assessment of the Company's performance and financial position to enable the Directors to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

During the year, the Company organised an in-house seminar and provided reading materials for the Directors to ensure that they have participated in continuous professional development to develop and refresh their knowledge and skills. A summary of training received by the Directors during the year according to the records provided by the Directors is as follows:

Name of Director	Position	Self-reading materials	Attended seminar
Mr. Ke Jian	Chairman and executive Director	✓	✓
Ms. Sha Ning	Executive Director	✓	✓
Mr. Chen Xinguo*	Executive Director	✓	✓
Mr. Yu Jie*	Executive Director	✓	✓
Mr. Ng Kong Fat, Brian	Executive Director	✓	
Dr. Jin Lizuo	Independent non-executive Director	✓	
Dr. Huan Guocang	Independent non-executive Director	✓	
Dr. Wang Jianping	Independent non-executive Director	✓	
Prof. Nie Yongfeng	Independent non-executive Director	✓	
Mr. Cheung Ming	Independent non-executive Director	✓	

* Appointed on 25 October 2021

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD OF DIRECTORS *(CONTINUED)*

The Board held two regular meetings during the year ended 31 December 2021. Details of attendance of each Director at the regular Board meetings and general meetings are as follows:

		Attendance	
Name of Director	**Position**	**Regular Board meetings**	**General meetings**
Mr. Ke Jian	Chairman and executive Director	2/2	0/2
Ms. Sha Ning	Executive Director	2/2	0/2
Mr. Chen Xinguo*	Executive Director	0/0	0/0
Mr. Yu Jie*	Executive Director	0/0	0/0
Mr. Ng Kong Fat, Brian	Executive Director	2/2	2/2
Dr. Jin Lizuo	Independent non-executive Director	2/2	0/2
Dr. Huan Guocang	Independent non-executive Director	2/2	0/2
Dr. Wang Jianping	Independent non-executive Director	2/2	0/2
Prof. Nie Yongfeng	Independent non-executive Director	2/2	0/2
Mr. Cheung Ming	Independent non-executive Director	2/2	0/2

* Appointed on 25 October 2021

Under Code Provision A.1.1, the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. However, the Company considers it is more efficient to hold Board meetings to address emerging issues as appropriate. Sufficient measures have been taken to ensure that there is efficient communication among the Directors.

Under Code Provision A.2.7, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. However, the Company considers it is more effective for non-executive Directors to voice their views by individual communication with the chairman of the Board (the "Chairman").

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. However, the independent non-executive Directors were unable to attend the general meetings of the Company due to other business engagements.

Under Code Provision E.1.2, the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration and nomination committees to attend. However, the chairmen of the Board and its committees were unable to attend the annual general meeting due to other business engagements.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

CHAIRMAN AND PRESIDENT

Mr. Ke Jian has assumed the positions of Chairman and Chief Executive Officer of the Company from 3 January 2020 to 17 August 2021. This arrangement deviated from Code Provision A.2.1 which recommends that the roles of chairman and chief executive should be separate and should not be performed by the same individual. However, the Board considered that the Mr. Ke Jian served as Chairman and Chief Executive Officer of the Company during that time could bring benefits to the Company's business development and management, and would not impair the balance of power and authority between the Board and the management of the Company. Since 18 August 2021, Mr. Chen Xinguo has replaced Mr. Ke Jian as the Chief Executive Officer of the Company, and then, the Company has not deviated from Code Provision A.2.1.

NON-EXECUTIVE DIRECTORS

None of the existing non-executive Directors is appointed for a specific term, which constitutes a deviation from Code Provision A.4.1 which stipulates non-executive directors should be appointed for a specific term, subject to re-election. However, in view of the fact that all non-executive Directors are subject to retirement by rotation in accordance with the Company's articles of association, the Company considers that there are sufficient measures to ensure that the corporate governance standard of the Company is not less exacting than that of the Code Provision.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

BOARD COMMITTEES

Remuneration Committee

The Remuneration Committee was established with terms of reference in accordance with Rule 3.25 of the Listing Rules and Code Provision B.1. The current members of the Remuneration Committee comprise three independent non-executive Directors, namely Dr. Jin Lizuo (committee chairman), Dr. Huan Guocang and Dr. Wang Jianping and the Chairman, Mr. Ke Jian. The Remuneration Committee performs an advisory role to the Board, with the Board retaining the final authority to approve executive Directors' and senior management's remuneration.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD COMMITTEES *(CONTINUED)*

Remuneration Committee *(continued)*

The role and function of the Remuneration Committee include (i) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; (iii) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management; (iv) to make recommendations to the Board on the remuneration packages of non-executive Directors; (v) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; (vi) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with relevant contractual terms and is otherwise fair and not excessive; (vii) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and (viii) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

No meeting was held by the Remuneration Committee during the year under review and the remuneration packages of the Board members remains unchanged during the year. Details of remuneration of the Directors and the five highest paid employees are set out in notes 9 and 10 to the financial statements.

Nomination Committee

The Nomination Committee was established with terms of reference in accordance with Code Provision A.5. The current members of the Nomination Committee comprise the Chairman, Mr. Ke Jian (committee chairman), and three independent non-executive Directors, namely Dr. Jin Lizuo, Dr. Huan Guocang and Dr. Wang Jianping.

The role and function of the Nomination Committee include (i) review the structure, size, composition and diversity (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) review the policy on Board diversity and any measurable objectives for implementing such policy as may be adopted by the Board from time to time, and to review the progress of achieving those objectives; (iii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iv) assess the independence of independent non-executive Directors; and (v) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

The Nomination Committee has adopted a nomination policy which sets out the following criteria and procedures for nomination of Directors:

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD COMMITTEES *(CONTINUED)*

Nomination Committee *(continued)*

Nomination Criteria

In determining the suitability of a candidate, the Nomination Committee shall consider the potential contributions a candidate can bring to the Board in terms of qualifications, skills, experience, independence, age, culture, ethnicity and gender diversity. The Nomination Committee shall consider a number of factors in making nominations, including but not limited to the following:

(a) Skills and Experience: The candidate should possess the skills, knowledge and experience which are relevant to the business of the Group.

(b) Diversity: Candidates should be considered on merit and against objective criteria, with due regard to the diversity perspectives set out in the Board Diversity Policy of the Company and the balance of skills and experience in board composition.

(c) Availability: The candidate shall be willing to devote adequate time for discharging the duties of a member of the Board and other director position.

(d) Character and integrity: The candidate must satisfy the Board and The Stock Exchange of Hong Kong Limited that he/she is a person of integrity and honesty, and has the character, experience and integrity commensurate with the relevant position as a Director.

(e) Independence: The candidate to be nominated as an Independent Non-executive Director must satisfy the independence criteria set out in Rule 3.13 of the Listing Rules.

Nomination Procedures

(a) If the Board determines that an additional or replacement Director is required, the Nomination Committee may take such measures that it considers appropriate in connection with its identification and evaluation of a candidate.

(b) The Nomination Committee may propose to the Board a candidate recommended or offered for nomination by a Shareholder as a nominee for election to the Board.

(c) Upon considering a candidate suitable for the position of Director, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment.

(d) On making recommendation, the Nomination Committee may submit the candidate's personal profile to the Board for consideration. The Board may appoint the candidate as Director to fill a casual vacancy or as an addition to the Board or recommend such candidate to Shareholders for election or re-election (where appropriate) at the general meeting.

Full members have attended a meeting held by the Nomination Committee during the year under review.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD COMMITTEES *(CONTINUED)*

Audit Committee

The Audit Committee was established with written terms of reference in accordance with Rule 3.21 of the Listing Rules and Code Provision C.3. The current members of the Audit Committee comprise three independent non-executive Directors, namely Dr. Huan Guocang (committee chairman), Dr. Jin Lizuo and Dr. Wang Jianping.

The role and function of the Audit Committee include (i) maintenance of the relationship with the Company's auditors; (ii) review of the Company's financial information; and (iii) oversight of the Company's financial reporting system, risk management and internal control procedures.

Full members have attended two meetings held by the Audit Committee during the year under review. The meetings have reviewed the interim and annual results, financial positions, risk management, internal control, impacts of the new accounting standards and management issues of the Group.

AUDITORS' REMUNERATION

An analysis of remuneration in respect of services provided by the auditors, Ernst & Young, of the Group is as follows:

	HK$'000
Annual audit services	2,860
Non-audit services (which included agreed-upon procedures on interim financial statements, review of continuing connected transactions and preliminary announcement of annual results and tax compliance services)	540
	3,400

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for preparing the accounts and the responsibilities of the auditor to the shareholders are set out on pages 39 to 41. The Directors have confirmed that the Group's financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the Group's risk management and internal control systems and for reviewing their effectiveness. Based on the characteristics of waste treatment business, the management has identified, evaluated and managed significant risks of the Company and its subsidiaries, covering the areas of safety production, financial security, contract execution and human resources protection. The summary of findings has been reviewed by the Audit Committee and the Board.

An internal audit department has been established in accordance with Code Provision C.2.5. It has conducted regular review regarding internal control systems of the Company and its subsidiaries and any material defects have been resolved.

COMPANY SECRETARY

Mr. Wong Kwok Wai, Robin has been the company secretary of the Company since 1993. Details of background and qualification of Mr. Wong are set out on page 16. Mr. Wong has complied with Rule 3.29 of the Listing Rules for taking not less than 15 hours of relevant professional training during the year.

SHAREHOLDERS' RIGHTS

The Company recognises the importance of good communications with shareholders and investors and also recognises the value of providing current and relevant information to shareholders and investors. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the annual and extraordinary general meetings of the Company provide a forum for shareholders to exchange views directly with the Board, which together help enhance and facilitate communication with shareholders. All registered shareholders are entitled to attend the general meetings and notices of meeting are served by post. Shareholders who are unable to attend a general meeting may complete and return to the Company's share registrar the proxy form enclosed with notice of meeting to give proxy to their representatives or chairman of the meeting.

Shareholders' Right to Convene Extraordinary General Meeting

The articles of association of the Company provides that the Directors may, whenever they think fit, convene an extraordinary general meeting and extraordinary general meetings shall also be convened on requisition, or, in default, may be convened by the requisitionists, all as provided by the Hong Kong Companies Ordinance, which provides that the directors are required to call a general meeting if the company has received requests to do so from shareholders of the company representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings.

Shareholders' Right to Put Enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the registered office of the Company in Hong Kong, or by fax (+852 2529 3725), or by email to general@beegl.com.hk for the attention of the company secretary.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

SHAREHOLDERS' RIGHTS *(CONTINUED)*

Shareholders' Right to Put Forward Proposals at General Meetings

The Hong Kong Companies Ordinance provides that, a company must give notice of a resolution if it has received requests that it do so from: (a) the shareholders of the company representing at least 2.5% of the total voting rights of all the shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate; or (b) at least 50 shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate.

The Hong Kong Companies Ordinance also provides that, the request (a) may be sent to the company in hard copy form or in electronic form; (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the company not later than (i) 6 weeks before the annual general meeting to which the requests relate; or (ii) if later, the time at which notice is given of that meeting.

All request shall be sent to the registered office of the Company in Hong Kong, or by fax (+852 2529 3725), or by email to general@beegl.com.hk for the attention of the company secretary.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2021, there was no significant change in the Company's constitutional documents.

DIVIDEND POLICY

The Company aims at providing stable and sustainable returns to shareholders. In deciding whether to propose a dividend and in determining an appropriate basis and method for dividend distribution, the Board will take into account, inter alia, the reasonable return in investment of the investors and the Shareholders, the actual and expected financial conditions, business plans, future operations and earnings, capital requirements and expenditure plans of the Company, any restrictions on payment of dividends that may be imposed by the Company's lenders, the general market sentiment and circumstances and any other factors the Board deems appropriate.

REPORT OF THE DIRECTORS

The directors (the "Directors") of Beijing Enterprises Environment Group Limited (the "Company") present their report and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group, an indication of likely future development in the Group's business and key performance indicators of the Company's business can be found in the Management Discussion and Analysis set out on pages 6 to 13 of this annual report. This discussion forms part of this directors' report.

RESULTS AND DIVIDENDS

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 financial statements on pages 42 to 135.

The Directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 136. This summary does not form part of the audited financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BOND

There were no movements in the Company's share capital during the year. Details of the convertible bond agreement entered into during the year or subsisting at the end of the year are set out in note 28 to the financial statements. Details of the share option scheme are included in the section "Share Option Scheme" below.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

At 31 December 2021, the Company had no reserves available for distribution, calculated in accordance with the provisions of sections 291, 297 and 299 of the Hong Kong Companies Ordinance.

REPORT OF THE DIRECTORS *(CONTINUED)*

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for less than 30% of the Group's revenue and total purchases for the year, respectively.

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

DIRECTORS

The Directors during the year were:

Executive Directors:

Mr. Ke Jian
Ms. Sha Ning
Mr. Chen Xinguo *(appointed on 25 October 2021)*
Mr. Yu Jie *(appointed on 25 October 2021)*
Mr. Ng Kong Fat, Brian

Independent non-executive Directors:

Dr. Jin Lizuo
Dr. Huan Guocang
Dr. Wang Jianping
Prof. Nie Yongfeng
Mr. Cheung Ming

The persons who were directors of the subsidiaries of the Company during the year (not including those directors listed above) were (in alphabetical order of surname) Messrs. Bu Yaming, Chen Gang, Chen Zhaojun, Du Hao, Du Qingjiang, Du Yan, Feng Hailian, Gong Xiaoqing, Guan Yinfeng, Han Yunyi, Hu Fang, Jiang Chao, Jiang Zhanlin, Jin Fuqing, Ju Zheng, Lei Yanqing, Li Xiaoyun, Liang Qiping, Ng Kwong Fung, Ouyang Yuewen, Pan Kerong, Qin Xuemin, Qiu Song, Ren Shicheng, Shao Qing, Shi Yongliang, Thio Seng Tji, Tung Woon Cheung Eric, Wang Bingsheng, Wang Juwei, Wang Yu, Wong Kwok Wai, Xin Kun, Xiong Lei, Yang Lanhua, Yu Ronghua, Zhang Kun, Zhang Jing, Zhang Jipeng, Zhang Zhiwu and Zhu Jian.

Changes in Directors' information since the date of the Company's 2021 interim report and up to the date of this annual report, which are required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), are set out below:

(i) Mr. Chen Xinguo replaced Mr. Ke Jian as Chief Executive Officer of the Company on 18 August 2021;

(ii) Ms. Sha Ning resigned as Vice President of the Company on 18 October 2021; and

(iii) Mr. Chen Xinguo and Mr. Yu Jie have been appointed as Executive Directors on 25 October 2021.

REPORT OF THE DIRECTORS *(CONTINUED)*

DIRECTORS *(CONTINUED)*

In accordance with articles 95 and 104(a) of the Company's articles of association, Mr. Chen Xinguo, Mr. Yu Jie, Mr. Ng Kong Fat, Brian, Dr. Wang Jianping and Prof. Nie Yongfeng will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. None of the Directors is appointed for a specific term.

The Company has received annual confirmations of independence from the five independent non-executive Directors and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 14 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to Directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's remuneration committee are set out in the corporate governance report on page 21 of the annual report.

PERMITTED INDEMNITY PROVISIONS

In accordance with article 182(a) of the Company's articles of association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities (in so far as is permitted by the Hong Kong Companies Ordinance) which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate directors' liability insurance coverage for the Directors and officers of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as the transactions with its fellow subsidiaries, further details of which are set out in note 38(a) to the financial statements, no Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year.

REPORT OF THE DIRECTORS *(CONTINUED)*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2021, the interests and short positions of the Directors and chief executive in the share capital 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 required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

	Number of ordinary shares held, capacity and nature of interest			
Name of Director	**Directly beneficially owned**	**Through a controlled corporation**	**Total**	**Percentage of the Company's share capital**
Mr. Ng Kong Fat, Brian	1,600,000	8,792,755#	10,392,755	0.69

The 8,792,755 ordinary shares are held by Sunbird Holdings Limited, a company controlled by Mr. Ng Kong Fat, Brian and his associate.

Save as disclosed above, as at 31 December 2021, none of the Directors and chief executive of the Company had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was 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.

REPORT OF THE DIRECTORS *(CONTINUED)*

SHARE OPTION SCHEME

The Company operated 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, which was expired during the year. Further details of the Scheme are disclosed in note 26 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

	Number of share options			
Name or category of participant	**At 1 January 2021**	**Forfeited during the year**	**Lapsed during the year**	**At 31 December 2021**
Executive Director:				
Mr. Ng Kong Fat, Brian	5,500,000	–	(5,500,000)	–
Independent non-executive Directors:				
Dr. Jin Lizuo	670,000	–	(670,000)	–
Dr. Huan Guocang	670,000	–	(670,000)	–
Dr. Wang Jianping	670,000	–	(670,000)	–
Others:				
In aggregate	30,110,000	(6,770,000)	(23,340,000)	–
	37,620,000	(6,770,000)	(30,850,000)	–

The above share options were granted on 21 June 2011 at an exercise price of HK$1.25 (subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital) per ordinary share of the Company. The share options may be exercised at any time commencing on 21 June 2011, and if not otherwise exercised, will lapse on 20 June 2021.

During the year, 6,770,000 share options were forfeited on 3 January 2021 upon the expiry of the 12-month post-retirement exercisable period of a former executive Director and the remaining 30,850,000 share options were lapsed on 20 June 2021 upon the expiry of the 10-year exercisable period.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CONTRACT OF SIGNIFICANCE

Save as the transactions with its fellow subsidiaries, further details of which are set out in note 38(a) to the financial statements, no contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

REPORT OF THE DIRECTORS *(CONTINUED)*

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2021, the following interests and short positions of 5% or more of the share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in ordinary shares of the Company:

		Number of ordinary shares held, capacity and nature of interest			
Name	Notes	**Directly beneficially owned**	**Through controlled corporations**	**Total**	**Percentage of the Company's total number of issued shares**
Idata Finance Trading Limited ("Idata")		738,675,000	–	738,675,000	49.23
Beijing Enterprises Holdings Limited ("BEHL")	(a)	17,445,000	738,675,000	756,120,000	50.40
Beijing Enterprises Group (BVI) Company Limited ("BEBVI")	(b)	–	756,120,000	756,120,000	50.40
Beijing Enterprises Group Company Limited ("BEGCL")	(b)	–	756,120,000	756,120,000	50.40
Cosmos Friendship Limited ("Cosmos")		347,000,000	–	347,000,000	23.13
Khazanah Nasional Berhad ("Khazanah")	(c)	–	347,000,000	347,000,000	23.13

Notes:

(a) The interest disclosed includes the ordinary shares owned by Idata. Idata is a wholly-owned subsidiary of BEHL. Accordingly, BEHL is deemed to be interested in the ordinary shares owned by Idata.

(b) The interests disclosed include the ordinary shares owned by BEHL and Idata. BEBVI and BEGCL are the immediate holding company and the ultimate holding company of BEHL, respectively. Accordingly, each of BEBVI and BEGCL is deemed to be interested in the ordinary shares owned by each of BEHL and Idata.

(c) The interests disclosed include the ordinary shares owned by Cosmos. Cosmos is a wholly-owned subsidiary of Khazanah. Accordingly, Khazanah is deemed to be interested in the ordinary shares owned Cosmos.

Save as disclosed above, as at 31 December 2021, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

REPORT OF THE DIRECTORS *(CONTINUED)*

ENVIRONMENTAL POLICIES AND PERFORMANCE

In the field of environmental protection, we adhered to "Sustainable Development". We continued to explore and practice green, low-carbon, and environmentally friendly models of development and strengthened environmental management in production, projects, and operations. We vigorously invested and applied energy-saving and emission-reduction technologies to improve the efficiency of energy resources. Taking advantage of our core business, we actively communicated the concept of low-carbon environmental protection to the society.

Facing the increasingly stringent environmental protection and emission standards, the Company has carried out continuous technological innovation and management improvement for its solid waste treatment business, so as to improve its solid waste treatment efficiency and reduce emissions in projects and daily operations. During the year under review, the Group has handled 3.39 million tonnes household wastes and generated 1.368 billion kWh electricity.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

The solid waste treatment operations of the Group are subject to extensive environmental, safety and health laws and regulations promulgated by the PRC government. During the year under review, certain of the Group's waste treatment plants have not completed the filing for or applied for environmental protection completion acceptance within the prescribed time limit, and therefore they are not entitled to apply for subsequent general construction completion acceptance or licenses. The Directors are of the view that the non-compliance incidents, individually and in aggregate would have no material adverse impact on the operations and financial position of the Group.

Save as aforesaid, during the year under review, to the best of the knowledge of the Directors, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

RELATIONSHIP WITH STAKEHOLDERS

The Group is committed to operate in a sustainable manner while balancing the interest of its stakeholders including customers, suppliers and employees. The Group maintains good relationship and smooth communication channels with the municipal government authorities and regional electricity bureaus in Mainland China, which are major customers of the solid waste treatment operations of the Group. Any reported issues and recommendations will be followed up promptly with the aims of improving service quality in the future. The Group is in good relationships with its suppliers and conducts a fair and strict appraisal of its suppliers on a regular basis.

Being people-oriented, the Group continues to improve and regularly review and update its policies on staff benefits, training, occupational health and safety. The Group encourages and finances its employees to attend training courses in the fields of their job responsibilities. Work life balance is also emphasised. Regular sports and leisure events were organised to strengthen the bonding among employees.

REPORT OF THE DIRECTORS *(CONTINUED)*

CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Connected transactions

(a) On 3 September 2021, Beihai Beikong Environment Technology Development Co., Ltd. ("Beihai Beikong", as purchaser, a fellow subsidiary of the Company) and Beijing Beikong Environment Protection Co., Ltd. (as vendor, a wholly-owned subsidiary of the Company) entered into (i) a supply contract of household waste incineration power generation plant equipment at a contract price in aggregate of approximately HK$182,031,000; and (ii) a technical services contract in relation to the supplied equipment at approximately HK$1,728,000. Further details of the transactions are set out in the circular of the Company dated 21 September 2021. During the year ended 31 December 2021, the Group has not yet derived revenue from Beihai Beikong.

(b) On 31 December 2021, the Company and 北京北控宏創科技有限公司 ("Hong Chuang", an indirect wholly-owned subsidiary of BEHL) entered into a cancellation of property transfer agreement, pursuant to which the Company and Hong Chuang agreed to cancel the property transfer agreement entered into between both parties dated 14 February 2012 and both parties will have no claim for damages against the counter party. Hong Chuang has refunded the prepayment of RMB25,600,368 to the Company. Further details of the transactions are set out in the announcement of the Company dated 31 December 2021 and note 14 to the financial statements.

Continuing connected transactions

(a) On 23 December 2020, the Company entered into a deposit services master agreement with Beijing Enterprises Group Finance Co., Ltd. ("BG Finance", a non-wholly-owned subsidiary of BEGCL), pursuant to which the Group may, in its ordinary and usual course of business, place and maintain deposits with BG Finance on normal commercial terms from time to time for three years from 1 January 2021 to 31 December 2023. The deposit interest rate will not be lower than (i) the benchmark interest rate prescribed by the People's Bank of China; (ii) the interest rates offered by commercial banks in Hong Kong and the PRC to the Group; and (iii) the interest rates offered by BG Finance to other members of BEGCL for the same type of deposits at the same period; and the cumulative daily outstanding deposits balance (in Hong Kong dollars equivalent) placed by the Group with BG Finance (including any interest accrued thereon) during the term of the deposit services master agreement will not exceed HK$40,000,000. Further details of the transactions are set out in the announcement of the Company dated 23 December 2020 and note 38(a)(iii) to the financial statements. During the year ended 31 December 2021, the Group's interest income from BG Finance recognised in profit and loss amounted to HK$120,000.

(b) On 25 October 2018, the Company entered into a property escrow agreement with Hong Chuang, pursuant to which Hong Chuang will provide the escrow services for sub-leasing the Company's investment property known as Block 5 of Beikong Hong Chuang Technology Park in Beijing, the PRC for an escrow period of three years from 1 September 2018 to 31 August 2021 and at an annual rent of RMB2,575,987 (subject to annual adjustment, if necessary). Further details of the transaction are set out in the announcement of the Company dated 25 October 2018 and notes 14 and 38(a)(i) to the financial statements. During the year ended 31 December 2021, the Group's rental income from Hong Chuang recognised in profit and loss amounted to HK$2,066,000.

REPORT OF THE DIRECTORS *(CONTINUED)*

CONNECTED TRANSACTIONS *(CONTINUED)*

Continuing connected transactions *(continued)*

The independent non-executive Directors have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditor, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *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 Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unmodified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of the Company's facility letter, which contain covenants requiring performance obligations of the controlling shareholder of the Company. Pursuant to a facility letter dated 28 August 2021 between the Company and China Guangfa Bank Co., Ltd. Hong Kong Branch relating to a one-year revolving loan facility and bank guarantee in aggregate of US$30,000,000, a termination event would arise if BEHL ceased to own beneficially, directly or indirectly, at least 50.1% of the shares in the Company's share capital.

SUFFICIENCY OF PUBLIC FLOAT

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

REPORT OF THE DIRECTORS *(CONTINUED)*

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, Mr. Ke Jian, Ms. Sha Ning and Mr. Chen Xinguo are vice presidents of BEHL, which is also involved in the solid waste treatment business. They are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

Notwithstanding the fact that the Company and BEHL are both engaged in the solid waste treatment business, the Company considers that there has not been competition between it and BEHL in view of the following factors:

(a) clear geographical delineation among solid waste treatment projects;

(b) no competition in relation to the supply of household waste and sale of electricity; and

(c) a deed of non-competition has been provided by BEHL in favour of the Company in order to completely avoid any competition between the Company and BEHL.

As the board of Directors of the Company is independent from the board of directors of BEHL and the above Directors do not control the board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of BEHL.

AUDITOR

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

ON BEHALF OF THE BOARD

KE JIAN
Chairman

Hong Kong
31 March 2022

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
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To the members of Beijing Enterprises Environment Group Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Beijing Enterprises Environment Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 42 to 135, 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 (the "HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS OF OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of non-financial assets (other than inventories, contract assets and deferred tax assets)	
At 31 December 2021, non-financial assets (other than inventories, contract assets and deferred tax assets) of the Group included property, plant and equipment of HK$1,099 million, right-of-use assets of HK$47 million, goodwill of HK$1,123 million, operating concessions of HK$2,999 million and other intangible assets of HK$48 million. These balances in aggregate represented 49% of the Group's total assets as at that date. Management tests goodwill annually for impairment. Other non-financial assets are assessed annually for any indication of impairment and if such an indication exists, management conducts an impairment assessment. The recoverable amount of goodwill was determined with reference to the value in use of the relevant operating segment, which was determined based on the future cash flows of the cash-generating units of the segment and discounted to the present values. The recoverable amounts of other non-financial assets were determined with reference to the respective values in use of each project, which were determined based on the future cash flows of the respective cash-generating units and discounted to the present values. The assumptions and methodologies used by the Group, including the waste treatment fee received, government policies on price setting, selling prices and sales volumes of electricity, compensations to be received for relevant assets, operating costs, capital expenditures, growth rates and discount rates, in the projected cash flows had significant effects on the determination of the recoverable amounts of the non-financial assets. We identified the impairment assessment of non-financial assets as a key audit matter because of the significant balances and the significant management judgement and estimation involved. Related disclosures are included in notes 2.5, 3, 13, 15, 16, 17 and 18 to the consolidated financial statements.	We involved our internal valuation specialists to assist us in evaluating the valuation models, assumptions and parameters used by the Group, giving particular attention to the estimated future revenues and results. Our procedures included testing the parameters used in the cash flow forecast, verifying the compensations associated with relevant assets, assessing the accuracy of previous forecasts by comparing them with the current performance, and evaluating the growth and trading assumptions. We then assessed the disclosures on the impairment testing, specifically the key assumptions that had the most significant effect on the determination of the recoverable amounts of the non-financial assets of the solid waste treatment segment, such as the discount rates and growth rates.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables	
At 31 December 2021, the Group had trade receivables of approximately HK$681 million which represented 6% of the Group's total assets as at that date and mainly arose from the sale of electricity and the provision of solid waste treatment services. Significant management judgements and estimates were involved in determining the amount of expected credit losses of these receivables as at the end of the reporting period for impairment assessment. Given the materiality of these receivables and judgemental nature of the recoverability assessment, we considered this a key audit matter. Related disclosures are included in notes 2.5, 3 and 22 to the consolidated financial statements.	In relation to the impairment assessment of trade receivables, we obtained an understanding of the credit loss provisioning methodology adopted by the Group and assessed the allowance for the expected credit losses estimated by management with reference to the history of actual write-offs and ageing analysis of the trade receivables. We also, on a sample basis, tested the ageing analysis of the trade receivables prepared by management; and checked the settlement status subsequent to the reporting period. We considered the adequacy of the Group's disclosures of the impairment of trade receivables in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

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.

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 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 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

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

As part of an audit in accordance with HKSAs, 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.

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.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

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

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 CHENG Man.

Ernst & Young
Certified Public Accountants
Hong Kong

31 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
REVENUE	5	**2,418,819**	1,790,611
Cost of sales		**(1,819,647)**	(1,259,141)
Gross profit		**599,172**	531,470
Other income and gains, net	6	**75,213**	94,192
Selling expenses		**(2,951)**	(2,373)
Administrative expenses		**(190,330)**	(157,131)
Other operating expenses, net		**(142,015)**	(241,016)
PROFIT FROM OPERATING ACTIVITIES	7	**339,089**	225,142
Finance costs	8	**(70,513)**	(75,805)
PROFIT BEFORE TAX		**268,576**	149,337
Income tax	11	**(22,959)**	6,048
PROFIT FOR THE YEAR		**245,617**	155,385
ATTRIBUTABLE TO:			
Shareholders of the Company		**264,051**	129,027
Non-controlling interests		**(18,434)**	26,358
		245,617	155,385
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	12		
– Basic (HK cents)		**17.60**	8.60
– Diluted (HK cents)		**9.26**	4.61

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021	2020
	HK$'000	HK$'000
PROFIT FOR THE YEAR	**245,617**	155,385
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		
Item that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**117,989**	269,934
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**363,606**	425,319
ATTRIBUTABLE TO:		
Shareholders of the Company	**372,227**	376,785
Non-controlling interests	**(8,621)**	48,534
	363,606	425,319

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	13	**1,098,565**	1,099,326
Investment property	14	**–**	48,571
Right-of-use assets	15(a)	**47,093**	66,521
Goodwill	16	**1,122,551**	1,122,551
Operating concessions	17	**2,998,908**	2,439,053
Other intangible assets	18	**47,805**	55,568
Investment in a joint venture	19	**6,652**	6,652
Receivables under service concession arrangements	17	**2,539,266**	2,165,794
Prepayments, deposits and other receivables	23	**25,018**	185
Deferred tax assets	32	**62,038**	18,307
Total non-current assets		**7,947,896**	7,022,528
Current assets:			
Contract assets	20	**327,499**	399,559
Inventories	21	**47,089**	43,842
Receivables under service concession arrangements	17	**71,357**	67,856
Trade and bills receivables	22	**680,647**	516,380
Prepayments, deposits and other receivables	23	**261,720**	175,230
Pledged deposits	24	**5,588**	7,122
Cash and cash equivalents	24	**1,578,738**	1,520,036
Total current assets		**2,972,638**	2,730,025
TOTAL ASSETS		**10,920,534**	9,752,553

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

31 December 2021

	Notes	**2021 HK$'000**	2020 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	25	**2,227,564**	2,227,564
Equity component of convertible bond	28	**–**	147,029
Other reserves	27(a)	**1,352,977**	819,902
		3,580,541	3,194,495
Non-controlling interests		**414,738**	397,070
TOTAL EQUITY		**3,995,279**	3,591,565
Non-current liabilities:			
Bank and other borrowings	29	**1,454,950**	886,438
Provision for major overhauls	30	**11,234**	9,283
Other payables	34	**7,964**	20,210
Deferred income	31	**148,206**	150,626
Deferred tax liabilities	32	**234,978**	217,320
Total non-current liabilities		**1,857,332**	1,283,877
Current liabilities:			
Trade payables	33	**737,054**	760,696
Other payables and accruals	34	**4,033,254**	1,707,679
Bank and other borrowings	29	**217,914**	165,604
Convertible bond	28	**–**	2,177,112
Income tax payables		**79,701**	66,020
Total current liabilities		**5,067,923**	4,877,111
TOTAL LIABILITIES		**6,925,255**	6,160,988
TOTAL EQUITY AND LIABILITIES		**10,920,534**	9,752,553

KE JIAN
Director

CHEN XINGUO
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Attributable to shareholders of the Company									
	Share capital HK$'000	**Equity component of convertible bond** HK$'000	**Share option reserve** HK$'000 (note 27(b))	**Capital reserve** HK$'000	**Exchange fluctuation reserve** HK$'000	**PRC reserve funds** HK$'000 (note 27(c))	**Retained profits** HK$'000	**Total** HK$'000	**Non–controlling interests** HK$'000	**Total equity** HK$'000
At 1 January 2020	2,227,564	147,029	20,789	12,180	(214,424)	26,144	598,428	2,817,710	293,255	3,110,965
Profit for the year	–	–	–	–	–	–	129,027	129,027	26,358	155,385
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	247,758	–	–	247,758	22,176	269,934
Total comprehensive income for the year	–	–	–	–	247,758	–	129,027	376,785	48,534	425,319
Capital contribution from non-controlling equity holders of a subsidiary	–	–	–	–	–	–	–	–	55,281	55,281
Transfer to PRC reserve funds	–	–	–	–	–	18,135	(18,135)	–	–	–
At 31 December 2020 and 1 January 2021	**2,227,564**	**147,029**	**20,789***	**12,180***	**33,334***	**44,279***	**709,320***	**3,194,495**	**397,070**	**3,591,565**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**264,051**	**264,051**	**(18,434)**	**245,617**
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**108,176**	**–**	**–**	**108,176**	**9,813**	**117,989**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**108,176**	**–**	**264,051**	**372,227**	**(8,621)**	**363,606**
Transfer of equity component of a convertible bond upon maturity (note 28)	**–**	**(147,029)**	**–**	**–**	**–**	**–**	**147,029**	**–**	**–**	**–**
Transfer of share option reserve upon forfeiture and lapse of share options (note 26)	**–**	**–**	**(20,789)**	**–**	**–**	**–**	**20,789**	**–**	**–**	**–**
Capital contribution from non-controlling equity holders of subsidiaries	**–**	**–**	**–**	**13,819**	**–**	**–**	**–**	**13,819**	**26,289**	**40,108**
Transfer to PRC reserve funds	**–**	**–**	**–**	**–**	**–**	**5,928**	**(5,928)**	**–**	**–**	**–**
At 31 December 2021	**2,227,564**	**–**	**–***	**25,999***	**141,510***	**50,207***	**1,135,261***	**3,580,541**	**414,738**	**3,995,279**

* These reserve accounts comprise the consolidated other reserves of HK$1,352,977,000 (2020: HK$819,902,000) in the consolidated statement of financial position as at 31 December 2021.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	**2021 HK$'000**	2020 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**268,576**	149,337
Adjustments for:			
Interest income	6	**(10,719)**	(11,392)
Gain on lease modifications	6	**(172)**	–
Depreciation of property, plant and equipment	7	**74,126**	89,251
Depreciation of right-of-use assets	7	**14,924**	15,726
Amortisation of operating concessions	7	**103,869**	101,657
Amortisation of other intangible assets	7	**3,045**	5,829
Provision for major overhauls	7	**1,144**	1,029
Loss on disposal of items of property, plant and equipment, net	7	**19**	203
Loss on disposal of an investment property	7	**10,602**	–
Fair value loss of an investment property	7	**–**	1,348
Impairment of property, plant and equipment	7	**–**	54,549
Impairment of right-of-use assets	7	**–**	12,725
Impairment of operating concessions	7	**115,585**	115,169
Impairment of other intangible assets	7	**6,289**	55,123
Impairment of trade and bills receivables, net	7	**5,501**	186
Finance costs	8	**70,513**	75,805
		663,302	666,545
Decrease/(increase) in contract assets		**80,819**	(153,462)
Increase in inventories		**(2,152)**	(1,711)
Increase in receivables under operating concession arrangements		**(318,608)**	(72,177)
Increase in trade and bills receivables		**(155,347)**	(97,861)
Decrease/(increase) in prepayments, deposits and other receivables		**(67,503)**	28,421
Increase/(decrease) in trade payables		**(41,688)**	189,991
Increase/(decrease) in other payables and accruals		**103,421**	(30,687)
Decrease in deferred income		**(6,020)**	(7,862)
Cash generated from operations		**256,224**	521,197
Mainland China income tax paid		**(51,032)**	(56,642)
Hong Kong income tax paid		**(43)**	(486)
Net cash flows from operating activities		**205,149**	464,069

CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

Year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(47,278)**	(53,435)
Proceeds from disposal of items of property, plant and equipment		**194**	973
Additions of operating concessions		**(697,547)**	(385,853)
Purchases of other intangible assets		**(325)**	(521)
Decrease in time deposits with maturity of more than three months when acquired		**2,781**	78
Decrease in pledged deposits		**1,688**	1,919
Interest received		**10,719**	11,392
Net cash flows used in investing activities		**(729,768)**	(425,447)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from non-controlling equity holders of subsidiaries		**40,108**	55,281
New bank loans	36(a)	**689,558**	86,787
Repayment of bank loans	36(a)	**(36,145)**	(22,472)
New other loans	36(a)	**12,048**	13,663
Repayment of other loans	36(a)	**(77,469)**	(71,966)
Principal portion of lease payments	36(a)	**(13,483)**	(13,443)
Interest portion of lease payments	36(a)	**(1,402)**	(1,528)
Other interest paid		**(59,608)**	(44,623)
Net cash flows from financing activities		**553,607**	1,699
NET INCREASE IN CASH AND CASH EQUIVALENTS		**28,988**	40,321
Cash and cash equivalents at beginning of year		**1,409,400**	1,306,276
Effect of foreign exchange rate changes, net		**29,831**	62,803
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,468,219**	1,409,400
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits:			
Placed in banks	24	**1,412,475**	1,305,564
Placed in a financial institution	24	**32,362**	33,031
Time deposits	24	**139,489**	188,563
Less: Pledged deposits	24	**(5,588)**	(7,122)
Cash and cash equivalents as stated in the consolidated statement of financial position		**1,578,738**	1,520,036
Less: Time deposits with maturity of more than three months when acquired		**(110,519)**	(110,636)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**1,468,219**	1,409,400

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION

Beijing Enterprises Environment Group Limited (the "Company") is a limited liability company incorporated in Hong Kong and the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in (i) the solid waste treatment business which comprises the provision of waste incineration plant construction and waste treatment services, and the sale of electricity and steam generated from waste incineration; and (ii) ecological construction service business.

At 31 December 2021, the immediate holding company of the Company is Idata Finance Trading Limited ("Idata"), which is a limited liability company incorporated in the British Virgin Islands. Idata is a wholly-owned subsidiary of Beijing Enterprises Holdings Limited ("BEHL") whose shares are listed on the Main Board of the Stock Exchange. In the opinion of the directors of the Company, the ultimate holding company of the Company is 北京控股集團有限公司 ("BEGCL"), which is a state-owned enterprise established in the People's Republic of China (the "PRC") and wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality (the "Beijing SASAC").

Information about principal subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of registration and business	Registered capital	Percentage of equity attributable to the Company	Principal activities
北京北控環境投資有限公司#	PRC/Mainland China	US$40,000,000	100	Investment holding
北京北控環境保護有限公司	PRC/Mainland China	RMB75,000,000	100	Investment holding and provision of waste treatment construction and related services
北京北發建設發展有限公司	PRC/Mainland China	RMB20,000,000	80	Provision of waste treatment construction and related services
泰安北控環境能源開發有限公司# ("Taian Beikong")	PRC/Mainland China	US$40,700,000	100	Household waste incineration
常德中聯環保電力有限公司# ("Changde Zhonglian")	PRC/Mainland China	RMB145,652,300	100	Household waste incineration

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

1. CORPORATE AND GROUP INFORMATION *(CONTINUED)*

Information about principal subsidiaries *(continued)*

Company name	Place of registration and business	Registered capital	Percentage of equity attributable to the Company	Principal activities
北京北控綠海能環保有限公司* ("Beikong Lvhaineng")	PRC/Mainland China	RMB308,340,000	99	Household waste incineration
北京高安屯垃圾焚燒有限公司* ("Beijing Gaoantun")	PRC/Mainland China	RMB274,000,000	84.896	Household waste incineration
北控環境再生能源(張家港)有限公司# ("Beikong Zhangjiagang")	PRC/Mainland China	RMB514,564,346	100	Household waste incineration
哈爾濱市雙琦環保資源利用有限公司 ("Ha'erbin Shuangqi")	PRC/Mainland China	RMB240,000,000	80	Household waste incineration
北控環境再生能源沭陽有限公司 ("Beikong Shuyang")	PRC/Mainland China	RMB158,369,000	100	Household waste incineration
北控環境(文昌)再生能源有限公司 ("Beikong Wenchang")	PRC/Mainland China	RMB20,000,000	100	Household waste incineration
北發合利(濟寧)環保電力有限公司 ("Beifa Jining")	PRC/Mainland China	RMB240,000,000	75	Household waste incineration
湖南衡興環保科技開發有限公司 ("Hunan Hengxing")	PRC/Mainland China	RMB38,090,000	65	Hazardous and medical waste treatment
北京北控生態建設集團有限公司* ("Beikong Ecology")	PRC/Mainland China	RMB88,490,000	51	Provision of ecological construction service

Registered as wholly-foreign-owned enterprises under PRC law

* Registered as Sino-foreign joint ventures under PRC law

All of the above principal subsidiaries are registered as limited liability companies under PRC law and are indirectly held by the Company. The above table lists the subsidiaries of the Company 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 other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.1 BASIS OF PRESENTATION

Despite that, as at 31 December 2021, the Group had net current liabilities of HK$2,095,285,000 and capital commitments of HK$615,771,000 which are expected to be incurred within 1 year in respect of a number of service concession arrangements as further detailed in note 37 to the financial statements, the directors of the Company 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, take into account the historical operating performance of the Group and the following:

(a) the existing banking facilities available to the Group as at the date of approval of these financial statements and on the assumption that such facilities will continue to be available from the Group's principal bankers; and

(b) a loan agreement entered into with Idata on 28 March 2022 to refinance the amount due to it of HK$2,693,300,000, which is included in current liabilities as at 31 December 2021 (note 34(c)). The loan has a three-year tenure and bears interest at 1.7% per annum.

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.

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an investment property which has been measured at fair value. These financial statements are presented in Hong Kong dollar ("HK$") 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.2 BASIS OF PREPARATION *(CONTINUED)*

Basis of consolidation *(continued)*

The financial statements of the subsidiaries are prepared for the same reporting period as the Company. 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

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

2.3 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	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)*

The adoption of the above revised HKFRSs did not have any significant impact on these financial statements.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.4 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	*Reference to the Conceptual Framework*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKFRS 17	*Insurance Contracts*[2, 5]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[2, 4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to HKAS 8	*Definition of Accounting Estimates*[2]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[1]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[1]

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 *Insurance Contracts* was amended to extend the temporary exemption that permits insurers to apply HKAS 39 *Financial Instruments: Recognition and Measurement* rather than HKFRS 9 (2014) *Financial Instruments* for annual periods beginning before 1 January 2023

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.4 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:

(a) 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* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 Business Combinations 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 *Provisions, Contingent Liabilities and Contingent Assets* or HK(IFRIC)-Int 21 *Levies* 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.

(b) Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 *Consolidated Financial Statements* and in HKAS 28 (2011) *Investments in Associates and Joint Ventures* 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(c) 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.

(d) 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 (Revised) *Presentation of Financial Statements* 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.

(e) 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(f) 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 Group has applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group will recognise a deferred tax asset and a deferred tax liability for deductible and taxable temporary differences associated with right-of-use assets and lease liabilities, and recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained profits at the beginning of the earliest comparative period presented.

(g) 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.

(h) 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

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

- HKFRS 9: 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: 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in a joint venture

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 investment in a joint venture is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any accumulated 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 a joint venture is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the 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 joint venture are eliminated to the extent of the Group's investment in the joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of a joint venture is included as part of the Group's investment in a joint venture.

If an investment in a joint venture becomes an investment in an associate 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 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 joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 controls 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

(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 the group of which it is a part, provides key management personnel service to the Group or to a holding company of the Group.

Business combinations and goodwill

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combinations and goodwill *(continued)*

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.

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 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 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 net 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 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 31 December. 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 value of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Fair value measurement

The Group measures its investment property 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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, financial assets, deferred tax assets and an investment property), 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of non-financial assets *(continued)*

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.

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 an 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 years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any 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 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 residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3.2% to 3.8%
Leasehold improvements	Over the shorter of the lease terms and 20%
Plant and machinery	4.75% to 19%
Furniture, fixtures and office equipment	9.5% to 31.7%
Motor vehicles	7.9% to 19%

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 profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests 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 properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise.

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

Service concession arrangements

Concession arrangements are recognised in accordance with HK(IFRIC)-Int 12 Service Concession Arrangements.

HK(IFRIC)-Int 12 is applicable to concession arrangements comprising a public service obligation and satisfying both of the following criteria:

- The concession grantor controls or regulates the services to be provided by the operator using the asset, the infrastructure, the beneficiaries of the services and the prices applied; and

- The grantor controls the significant residual interest in the infrastructure at the end of the term of the arrangement.

The accounting for service concession arrangements is as follows:

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that 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. The Group has an unconditional right to receive cash or another financial asset if only the passage of time is required before payment of that 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 the specified quality of efficiency requirements. The financial asset (receivable under a service concession arrangement) is accounted for in accordance with the policy set out for "Investments and other financial assets" below.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Service concession arrangements *(continued)*

Consideration given by the grantor *(continued)*

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 services

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

Operating services

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

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

The Group has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain the solid waste incineration 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 solid waste incineration plants, except for upgrade elements, 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 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 lives 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. The principal annual rates used for this purpose are as follows:

Operating concessions	3.3% to 5.5%
Operating rights	3.7% to 4.1%
Licences	4% to 6.7%
Computer software	10% to 20%

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

The Group entered into service concession agreements with government authorities and obtained the rights to operate solid waste incineration plants in the PRC. For the service concession arrangements which are within the scope of HK(IFRIC)-Int 12, the non-guarantee receipt rights to receive cash are accounted for as an "operating concession". For the service concession arrangements which are not within the scope of HK(IFRIC)-Int 12, the fair value of the non-guarantee receipt right to receive cash acquired in a business combination is accounted for as an "operating right". Amortisation of "operating concessions" and "operating rights" is provided on the straight-line basis over the respective periods of the operating concessions granted to the respective subsidiaries of the Group.

Intangible assets with finite lives are subsequently 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.

An intangible asset is derecognised on disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in 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.

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.

At inception or on reassessment of a contract that contains a lease component and non-lease component(s), the Group adopts the practical expedient not to separate non-lease component(s) and to account for the lease component and the associated non-lease component(s) (e.g., property management services for leases of properties) as a single lease component.

(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 accumulated 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 the straight-line basis over the following depreciation periods, which are the shorter of the lease terms and the estimated useful lives of the assets:

Land and building	2 to 5 years
Leasehold land	50 years

If ownership of the leased asset is transferred 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 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 the interest rate implicit in the lease or, where that rate cannot be readily determined, the Group uses its incremental borrowing rate at the lease commencement date. 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.

The Group's lease liabilities are included in "Other payables and accruals".

(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 building, 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 the 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 the straight-line basis over the lease terms and is included in other income in 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 other income in the period in which they are earned.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial assets

Initial recognition and measurement

Financial assets are all classified, at initial recognition, as subsequently measured at amortised cost.

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 *Revenue from Contracts with Customers* in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset (debt instrument) 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 (debt instruments) 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 (debt instruments) refers to how it manages its financial assets (debt instruments) in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets (debt instruments), or both. Financial assets (debt instruments) classified and measured at amortised cost are held within a business model with the objective to hold financial assets (debt instruments) in order to collect contractual cash flows, while financial assets (debt instruments) 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 (debt instruments) 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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial assets *(continued)*

Impairment

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.

(a) General approach

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

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

The Group considers a financial asset in default when contractual payments are 3 years past due. As some of the customers of the Group are enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities affiliates or other organisations and there was no history of default in prior years, the directors of the Company considered the default rate is minimal. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach 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 *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial assets *(continued)*

Impairment *(continued)*

(b) Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established an ECL model that takes into account the ageing of the receivables, credit ratings, probabilities of default and loss given default rates of customers.

For contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Derecognition

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

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are all classified, at initial recognition, as financial liabilities at amortised cost, which are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities at amortised cost 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 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 integral part of the effective interest rate. The effective interest rate amortisation is included in "Finance costs" in profit or loss.

Derecognition

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 profit or loss.

Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component (conversion option).

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a non-current liability or a current liability, as appropriate, on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option (the equity component) that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. In respect of the convertible bonds issued by the Company, the equity component is included in the Company's equity component of convertible bond reserve. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Upon the exercise of the conversion option, the resulting shares issued are recorded by the Company as additional share capital.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Convertible bonds *(continued)*

When convertible bonds are redeemed, the carrying amount of the equity component is transferred to retained profits as a movement in reserves and any difference between the amount paid and the carrying amount of the liability component is recognised in profit or loss. Where the conversion option remains unexercised at the expiry date, any remaining balance of the equity component of the convertible bonds will be transferred to retained profits as a movement in reserves. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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, which are not restricted as to use.

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 in "Finance costs" in profit or loss.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

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

- where 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 and a joint venture, where 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:

- where 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 and a joint venture, 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

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.

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.

Where 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 profit or loss over the expected useful life of the relevant asset by equal annual instalments or is deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

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

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

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 *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition *(continued)*

Revenue from contracts with customers *(continued)*

(a) Waste and other treatments

Revenue from waste treatment, leachate, sludge and other treatments is recognised at the point in time when the services are rendered.

(b) Sale of electricity and steam

Revenue from the sale of electricity and steam which are produced during the solid waste incineration process 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 electricity and/or steam and the Group has the present right to payment and the collection of the consideration is probable.

(c) Construction services

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the waste incineration plant and ecological construction services.

Revenue from 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.

Revenue from other sources

(a) Rental income

Rental income is recognised on the straight-line basis over the lease terms.

(b) Interest 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.

(c) Dividend income

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.

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 "Financial assets – Impairment" above.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 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.

Employee benefits

Share-based payments

The Company operates a share option 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 the Black-Scholes Merton option pricing model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in the share option reserve, 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits *(continued)*

Share-based payments *(continued)*

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 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.

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital, at an amount equivalent to the total of the proceeds from the exercise of the share options and the amount previously recognised as share-based payment expenses.

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.

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

Pension schemes

Certain companies within the Group have participated in a number of defined contribution retirement benefit schemes required by relevant local governments for the employees of the Group. Contributions are made based on a certain percentage of the covered payroll and are charged to profit or loss as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the schemes.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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

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 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 Mainland China and overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of 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 other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies *(continued)*

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 acquisition 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 Mainland China and overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of Mainland China and overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. 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 that 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:

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less costs of disposal of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. For the Group's service concession arrangements, an assumption is also made on the possibility of renewal of the relevant operating rights upon expiry which enables the Group to generate income perpetually. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2021 was HK$1,122,551,000 (2020: HK$1,122,551,000), details of which are set out in note 16 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The carrying amounts of non-financial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.5 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 or compensation to be received for relevant 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.

Details of the impairment losses recognised on the Group's property, plant and equipment, right-of-use assets, operating concessions and other intangible assets during the year are set out in notes 13, 15, 17 and 18 to the financial statements.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

Provision for expected credit losses of trade receivables

The Group has established an ECL model that takes into account the ageing of the receivables, credit ratings, probabilities of default and loss given default rates of customers.

The credit ratings, probabilities of default and loss given default rates applied may not be representative of customers' actual default in the future and significant management estimates are required in the estimates. When the actual outcome or expectation in future is different from the original estimates, such differences will impact on the carrying amounts of trade receivables and the amount of ECLs provided or reversed in the periods in which such estimates have been changed. The information about the ECLs of the Group's trade receivables is disclosed in note 22(d) to the financial statements.

Percentage of completion of construction work

The Group recognises revenue for construction work according to the percentage of completion of the individual contracts of construction work. The Group's management estimates the percentage of completion of construction work based on the actual cost incurred over the total budgeted cost, where the corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction, 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 as the contract progresses.

Useful lives and residual values of property, plant and equipment and intangible assets (other than goodwill)

The Group's management determines the useful lives, residual values and related depreciation/amortisation charges for the Group's property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charges where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable lives of the Group's property, plant and equipment and intangible assets and therefore depreciation/amortisation in the future periods.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong and Mainland China. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions 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.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

4. 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 solid waste treatment segment engages in the provision of waste incineration plant construction and waste treatment services, and the sale of electricity and steam generated from waste incineration;

(b) the ecological construction services segment engages in the provision of ecological construction, design, project survey and design, and construction project management services; and

(c) the corporate and others segment comprises property investment business and corporate income and expense items.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is measured consistently with the Group's profit for the year.

Segment assets and liabilities of each of the reportable operating segments are separately managed by each of the individual operating segments.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

The following table presents the revenue and profit/(loss) information for the years ended 31 December 2021 and 2020 and the total assets and total liabilities information as at 31 December 2021 and 2020 regarding the Group's operating segments:

Year ended 31 December 2021/as at 31 December 2021

	Solid waste treatment HK$'000	Ecological construction services HK$'000	Corporate and others HK$'000	Total HK$'000
Segment revenue (note 5)	2,225,117	193,702	–	2,418,819
Cost of sales	(1,607,704)	(211,943)	–	(1,819,647)
Gross profit/(loss)	617,413	(18,241)	–	599,172
Profit/(loss) from operating activities	432,521	(62,833)	(30,599)	339,089
Finance costs	(42,864)	(2,396)	(25,253)	(70,513)
Profit/(loss) before tax	389,657	(65,229)	(55,852)	268,576
Income tax	(32,885)	10,084	(158)	(22,959)
Profit/(loss) for the year	356,772	(55,145)	(56,010)	245,617
Segment profit/(loss) attributable to shareholders of the Company	348,287	(28,173)	(56,063)	264,051
Segment assets	10,031,971	543,132	345,431	10,920,534
Segment liabilities	4,060,617	398,296	2,466,342	6,925,255
Other segment information:				
Interest income	9,139	225	1,355	10,719
Impairment of segment assets, net	126,962	413	–	127,375
Depreciation of property, plant and equipment	72,360	1,592	174	74,126
Depreciation of right-of-use assets	7,576	5,842	1,506	14,924
Amortisation of operating concessions	103,869	–	–	103,869
Amortisation of other intangible assets	2,992	41	12	3,045
Investment in a joint venture	6,652	–	–	6,652
Capital expenditure*	758,551	3,910	33	762,494

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Year ended 31 December 2020/as at 31 December 2020

	Solid waste treatment HK$'000	Ecological construction services HK$'000	Corporate and others HK$'000	Total HK$'000
Segment revenue (note 5)	1,379,817	410,794	–	1,790,611
Cost of sales	(951,801)	(307,340)	–	(1,259,141)
Gross profit	428,016	103,454	–	531,470
Profit/(loss) from operating activities	160,409	64,982	(249)	225,142
Finance costs	(43,366)	(2,369)	(30,070)	(75,805)
Profit/(loss) before tax	117,043	62,613	(30,319)	149,337
Income tax	15,426	(8,843)	(535)	6,048
Profit/(loss) for the year	132,469	53,770	(30,854)	155,385
Segment profit/(loss) attributable to shareholders of the Company	132,572	27,676	(31,221)	129,027
Segment assets	8,973,091	585,564	193,898	9,752,553
Segment liabilities	3,066,609	419,267	2,675,112	6,160,988
Other segment information:				
Interest income	2,951	233	8,208	11,392
Impairment of segment assets, net	237,718	34	–	237,752
Depreciation of property, plant and equipment	82,724	6,288	239	89,251
Depreciation of right-of-use assets	5,928	5,448	4,350	15,726
Amortisation of operating concessions	101,657	–	–	101,657
Amortisation of other intangible assets	5,780	38	11	5,829
Fair value loss of an investment property	–	–	1,348	1,348
Investment in a joint venture	6,652	–	–	6,652
Capital expenditure*	458,229	1,554	84	459,867

* Capital expenditure consists of additions to property, plant and equipment, leasehold land included in right-of-use assets, operating concessions and other intangible assets.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Geographical information

Geographical information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the non-current assets (other than financial assets) of the Group are located in Mainland China. Accordingly, in the opinion of the directors of the Company, the presentation of geographical information would provide no additional useful information to the users of the financial statements.

Information about a major customer

During the year, the revenue generated from sales to an external customer of the solid waste treatment segment, which accounted for 10% or more of the Group's total revenue, amounted to HK$249,525,000 (2020: HK$217,657,000).

5. REVENUE

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

	2021 **HK$'000**	2020 HK$'000
Household waste treatment service income*	**282,752**	266,478
Hazardous and medical waste treatment service income	**52,032**	53,340
Food waste, leachate, sludge and other treatments service income	**135,621**	99,297
Sales of electricity	**653,993**	611,826
Sales of steam	**15,297**	13,184
Waste incineration plant construction and related service income*	**1,085,422**	335,692
Ecological construction and related service income	**193,702**	410,794
	2,418,819	1,790,611

* Imputed interest income under service concession arrangements during the year amounting to HK$106,773,000 (2020: HK$90,693,000) was included in the revenue derived from household waste treatment services and waste incineration plant construction and related services.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

5. REVENUE *(CONTINUED)*

(a) Disaggregated revenue information

Year ended 31 December 2021

Segment	Solid waste treatment HK$'000	Ecological construction services HK$'000	Total HK$'000
Types of goods or services			
Household waste treatment service	189,277	–	189,277
Hazardous and medical waste treatment service	52,032	–	52,032
Food waste, leachate, sludge and other treatments service	135,621	–	135,621
Electricity	653,993	–	653,993
Steam	15,297	–	15,297
Waste incineration plant construction and related services	1,072,124	–	1,072,124
Landscaping construction services	–	175,053	175,053
Landscaping design services	–	18,649	18,649
Total revenue from contracts with customers	2,118,344	193,702	2,312,046
Revenue from another source:			
Imputed interest income	106,773	–	106,773
Total revenue	2,225,117	193,702	2,418,819
Geographical markets			
Total revenue from contracts with customers in Mainland China	2,118,344	193,702	2,312,046
Revenue from another source:			
Imputed interest income	106,773	–	106,773
Total revenue	2,225,117	193,702	2,418,819
Timing of revenue recognition			
Goods and services transferred at a point in time	1,046,220	18,649	1,064,869
Services transferred over time	1,072,124	175,053	1,247,177
Total revenue from contracts with customers	2,118,344	193,702	2,312,046
Revenue from another source:			
Imputed interest income	106,773	–	106,773
Total revenue	2,225,117	193,702	2,418,819

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

5. REVENUE *(CONTINUED)*

(a) Disaggregated revenue information *(continued)*

Year ended 31 December 2020

Segment	Solid waste treatment HK$'000	Ecological construction services HK$'000	Total HK$'000
Types of goods or services			
Household waste treatment service	176,863	–	176,863
Hazardous and medical waste treatment service	53,340	–	53,340
Food waste, leachate, sludge and other treatments service	99,297	–	99,297
Electricity	611,826	–	611,826
Steam	13,184	–	13,184
Waste incineration plant construction and related services, and sale of related goods	334,614	–	334,614
Landscaping construction services	–	353,380	353,380
Landscaping design services	–	57,414	57,414
Total revenue from contracts with customers	1,289,124	410,794	1,699,918
Revenue from another source:			
Imputed interest income	90,693	–	90,693
Total revenue	1,379,817	410,794	1,790,611
Geographical markets			
Mainland China	1,278,823	410,794	1,689,617
Hong Kong	10,301	–	10,301
Total revenue from contracts with customers	1,289,124	410,794	1,699,918
Revenue from another source:			
Imputed interest income	90,693	–	90,693
Total revenue	1,379,817	410,794	1,790,611
Timing of revenue recognition			
Goods and services transferred at a point in time	964,811	57,414	1,022,225
Services transferred over time	324,313	353,380	677,693
Total revenue from contracts with customers	1,289,124	410,794	1,699,918
Revenue from another source:			
Imputed interest income	90,693	–	90,693
Total revenue	1,379,817	410,794	1,790,611

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

5. REVENUE *(CONTINUED)*

(b) Performance obligations

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

(i) Waste and other treatments

The performance obligations of waste treatment, leachate, sludge and other treatments services are satisfied at the point in time.

(ii) Sale of electricity and steam

The performance obligation is satisfied when control of the asset is transferred to the customer, generally when the customer obtains the physical possession or the legal title of the electricity and/or steam and the Group has the present right to payment and the collection of the consideration is probable.

(iii) Construction services

The performance obligation is satisfied over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the waste incineration plant and ecological construction services.

(iv) The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) with an original expected duration of one year or more as at the end of the reporting period are as follows:

	2021 **HK$'000**	2020 HK$'000
Amounts expected to be recognised as revenue:		
Within one year	**1,195,401**	1,407,345
After one year	**408,366**	1,414,010
Total (note)	**1,603,767**	2,821,355

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to waste incineration plant construction services, of which the performance obligations are to be satisfied within two years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

Note: The Group has applied the practical expedient in HKFRS 15 for not disclosing the remaining performance obligations of the Group's existing household waste treatment service contracts as the Group recognises revenue from the satisfaction of the performance obligation in the amount to which the Group has a right to consideration from a customer that corresponds directly with the value to the customer of the entity's performance completed to date. For all other contracts in which the performance obligations are expected to be recognised as revenue with an original expected duration of one year or less, the transaction price allocated to these unsatisfied contracts is not disclosed as permitted under HKFRS 15.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

6. OTHER INCOME AND GAINS, NET

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

	2021 **HK$'000**	2020 HK$'000
Value added tax refund	**40,281**	66,006
Interest income	**10,719**	11,392
Government grants*	**10,362**	2,557
Rental income	**2,066**	2,894
Gain on lease modifications	**172**	–
Foreign exchange differences, net	**7,160**	6,948
Others	**4,453**	4,395
	75,213	94,192

* The government grants recognised by the Group during the year represented subsidies received from certain government authorities as incentives to promote energy saving technologies in the local provinces.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Notes	**2021 HK$'000**	2020 HK$'000
Cost of raw materials consumed		**85,159**	97,041
Cost of waste treatment services rendered*		**453,858**	398,161
Cost of waste incineration plant construction services		**906,606**	276,764
Cost of ecological construction and related services		**211,943**	307,340
Employee benefit expense (including directors' remuneration – note 9):			
Wages and salaries		**269,355**	220,693
Pension scheme contributions (defined contribution scheme)[&]		**22,148**	1,824
		291,503	222,517
Less: Amount capitalised		**(20,955)**	(14,359)
		270,548	208,158
Depreciation of property, plant and equipment[Ω]	13	**74,126**	89,251
Depreciation of right-of-use assets[@]	15(a)	**14,924**	15,726
Lease payments not included in the measurement of lease liabilities	15(c)	**6,099**	5,947
Amortisation of operating concessions^	17	**103,869**	101,657
Amortisation of other intangible assets^	18	**3,045**	5,829
Provision for major overhauls^	30	**1,144**	1,029
Impairment of property, plant and equipment[#]	13	**–**	54,549
Impairment of right-of-use assets[#]	15(a)	**–**	12,725
Impairment of operating concessions[#]	17	**115,585**	115,169
Impairment of other intangible assets[#]	18	**6,289**	55,123
Impairment of trade and bills receivables, net[#]	22(c)	**5,501**	186
Loss on disposal of items of property, plant and equipment, net[#]		**19**	203
Loss on disposal of an investment property[#]		**10,602**	–
Fair value loss of an investment property[#]	14	**–**	1,348
Auditor's remuneration		**2,860**	2,860

* The cost of waste treatment services rendered does not include the recognition of government subsidies of HK$7,832,000 (2020: HK$7,304,000) on the straight-line basis over the expected useful lives of the relevant assets (note 31), which is included in "Cost of sales" in the consolidated statement of profit or loss.

Ω Depreciation of property, plant and equipment in a total amount of HK$61,326,000 (2020: HK$77,678,000) is included in "Cost of sales" in the consolidated statement of profit or loss.

@ Depreciation of right-of-use assets in a total amount of HK$899,000 (2020: HK$1,146,000) is included in "Cost of sales" in the consolidated statement of profit or loss.

^ The amortisation of operating concessions and other intangible assets (excluding computer software amounting to HK$370,000 (2020: HK$200,000) which is included in "Administrative expenses"), and the provision for major overhauls are included in "Cost of sales" in the consolidated statement of profit or loss.

These items are included in "Other operating expenses, net" in the consolidated statement of profit or loss.

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

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

8. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	Notes	2021 HK$'000	2020 HK$'000
Interest on bank and other borrowings		**59,608**	44,623
Imputed interest on a convertible bond	28	**25,188**	29,944
Interest on lease liabilities	15(b)	**1,402**	1,528
Total interest expenses		**86,198**	76,095
Less: Interest capitalised		**(16,244)**	(725)
		69,954	75,370
Other finance costs:			
Increase in discounted amounts of provision for major overhauls arising from the passage of time	30	**559**	435
		70,513	75,805

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), 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:

	2021 HK$'000	2020 HK$'000
Fees	**870**	870
Other emoluments:		
Salaries, allowances and benefits in kind	**–**	–
Pension scheme contributions	**–**	2
	–	2
	870	872

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

9. DIRECTORS' REMUNERATION *(CONTINUED)*

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2021				
Executive directors:				
Mr. Ke Jian	**–**	**–**	**–**	**–**
Ms. Sha Ning	**–**	**–**	**–**	**–**
Mr. Chen Xinguo#	**–**	**–**	**–**	**–**
Mr. Yu Jie#	**–**	**–**	**–**	**–**
Mr. Ng Kong Fat, Brian	**120**	**–**	**–**	**120**
	120	**–**	**–**	**120**
Independent non-executive directors:				
Dr. Jin Lizuo	**150**	**–**	**–**	**150**
Dr. Huan Guocang	**150**	**–**	**–**	**150**
Dr. Wang Jianping	**150**	**–**	**–**	**150**
Prof. Nie Yongfeng	**150**	**–**	**–**	**150**
Mr. Cheung Ming	**150**	**–**	**–**	**150**
	750	**–**	**–**	**750**
Total	**870**	**–**	**–**	**870**
Year ended 31 December 2020				
Executive directors:				
Mr. E Meng*	–	–	–	–
Mr. Ke Jian	–	–	–	–
Ms. Sha Ning	–	–	–	–
Mr. Ng Kong Fat, Brian	120	–	2	122
	120	–	2	122
Independent non-executive directors:				
Dr. Jin Lizuo	150	–	–	150
Dr. Huan Guocang	150	–	–	150
Dr. Wang Jianping	150	–	–	150
Prof. Nie Yongfeng	150	–	–	150
Mr. Cheung Ming	150	–	–	150
	750	–	–	750
Total	870	–	2	872

Appointed on 25 October 2021

* Resigned on 3 January 2020

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees for each of the years ended 31 December 2021 and 2020 do not include any director. Details of the remuneration of the five (2020: five) non-director, highest paid employees for the year are as follows:

	2021 HK$'000	2020 HK$'000
Salaries, allowances and benefits in kind	**5,597**	5,122
Pension scheme contributions	**270**	67
	5,867	5,189

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

	Number of employees	
	2021	2020
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**4**	3
	5	5

11. INCOME TAX

An analysis of the Group's income tax is as follows:

	2021 HK$'000	2020 HK$'000
Current — Hong Kong		
Charge for the year	**–**	72
Overprovision in prior years	**(10)**	(19)
Current — Mainland China		
Charge for the year	**68,198**	38,178
Overprovision in prior years	**(14,675)**	(1,157)
	53,513	37,074
Deferred (note 32)	**(30,554)**	(43,122)
Total tax charge/(credit) for the year	**22,959**	(6,048)

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

11. INCOME TAX *(CONTINUED)*

(a) No provision for Hong Kong profits tax has been made for the year ended 31 December 2021 as the Group did not generate any assessable profits arising in Hong Kong during the year. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit arising in Hong Kong during the year ended 31 December 2020. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant tax laws of the PRC, certain subsidiaries of the Group which are engaged in the solid waste treatment business are exempted from corporate income tax for three years starting from the first year they generate revenue and enjoy a 50% tax reduction for the ensuing three years.

(b) A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense/(credit) at the effective tax rate, is as follows:

	2021		2020	
	HK$'000	**%**	HK$'000	%
Profit before tax	**268,576**		149,337	
Tax at the statutory tax rates	**69,429**	**25.9**	42,575	28.5
Effect of withholding tax on interest income from intercompany loans and rental income from a lessee in the PRC	**1,747**	**0.7**	(85)	–
Tax concession enjoyed	**(29,226)**	**(10.9)**	(53,790)	(36.0)
Adjustments in respect of current tax of previous periods	**(14,685)**	**(5.5)**	(1,176)	(0.8)
Income not subject to tax	**(2,763)**	**(1.0)**	(1,466)	(1.0)
Expenses not deductible for tax	**10,975**	**4.0**	8,487	5.7
Tax losses not recognised	**–**	**–**	3,345	2.2
Tax losses utilised from previous periods	**(12,518)**	**(4.7)**	(3,938)	(2.6)
Tax charge/(credit) at the Group's effective tax rate	**22,959**	**8.5**	(6,048)	(4.0)

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

12. 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, and the weighted average number of ordinary shares in issue 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 imputed interest on a convertible bond. The weighted average number of ordinary shares used in the calculation is the total of (i) the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation; and (ii) the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of the dilutive convertible bond into ordinary shares. The share options of the Company outstanding during each of the years ended 31 December 2021 and 2020 had no diluting effect on the basic earnings per share amounts presented.

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

	2021 **HK$'000**	2020 HK$'000
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	**264,051**	129,027
Imputed interest on a convertible bond (note 8)	**25,188**	29,944
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	**289,239**	158,971

	Number of shares	
	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**1,500,360,150**	1,500,360,150
Effect of dilution of a convertible bond – weighted average number of ordinary shares	**1,623,225,118**	1,948,938,053
Weighted average number of ordinary shares in issue during the year, used in the diluted earnings per share calculation	**3,123,585,268**	3,449,298,203

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2021							
At 1 January 2021:							
Cost	468,145	53,290	812,408	18,582	25,597	63,421	1,441,443
Accumulated depreciation and impairment	(60,810)	(22,275)	(232,799)	(11,634)	(14,599)	–	(342,117)
Net carrying amount	407,335	31,015	579,609	6,948	10,998	63,421	1,099,326
Net carrying amount:							
At 1 January 2021	407,335	31,015	579,609	6,948	10,998	63,421	1,099,326
Additions	–	772	3,168	4,822	3,113	35,403	47,278
Depreciation provided during the year	(22,658)	(2,941)	(43,370)	(2,570)	(2,587)	–	(74,126)
Disposals	–	–	–	(164)	(49)	–	(213)
Transfer from construction in progress	69,708	–	890	–	–	(70,598)	–
Exchange realignment	10,510	530	13,656	214	335	1,055	26,300
At 31 December 2021	464,895	29,376	553,953	9,250	11,810	29,281	1,098,565
At 31 December 2021:							
Cost	537,604	57,870	846,083	22,841	28,091	29,281	1,521,770
Accumulated depreciation and impairment	(72,709)	(28,494)	(292,130)	(13,591)	(16,281)	–	(423,205)
Net carrying amount	464,895	29,376	553,953	9,250	11,810	29,281	1,098,565

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

13. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2020							
At 1 January 2020:							
Cost	201,870	42,254	543,150	15,386	23,390	489,077	1,315,127
Accumulated depreciation	(36,891)	(11,540)	(119,883)	(9,470)	(11,945)	–	(189,729)
Net carrying amount	164,979	30,714	423,267	5,916	11,445	489,077	1,125,398
Net carrying amount:							
At 1 January 2020	164,979	30,714	423,267	5,916	11,445	489,077	1,125,398
Additions	–	4,422	5,694	3,059	2,140	38,120	53,435
Depreciation provided during the year	(25,082)	(9,546)	(49,789)	(2,235)	(2,599)	–	(89,251)
Impairment provided during the year (note (c))	(3,213)	–	(51,304)	(32)	–	–	(54,549)
Disposals	–	(33)	(393)	(145)	(605)	–	(1,176)
Transfer from construction in progress	247,766	–	219,573	–	–	(467,339)	–
Exchange realignment	22,885	5,458	32,561	385	617	3,563	65,469
At 31 December 2020	407,335	31,015	579,609	6,948	10,998	63,421	1,099,326
At 31 December 2020:							
Cost	468,145	53,290	812,408	18,582	25,597	63,421	1,441,443
Accumulated depreciation and impairment	(60,810)	(22,275)	(232,799)	(11,634)	(14,599)	–	(342,117)
Net carrying amount	407,335	31,015	579,609	6,948	10,998	63,421	1,099,326

Notes:

(a) At 31 December 2021, the buildings in relation to a solid waste incineration plant with a net carrying amount of HK$284,457,000 (2020: HK$282,873,000) were pledged to secure a bank loan granted to the Group (note 29(c)).

(b) At 31 December 2021, the Group was in the process of applying for the change of registration of the title certificates with respect to the buildings of the plant of Beikong Zhangjiagang to which the Group's service concession arrangement relates. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of the buildings and that the Group would not have any legal barriers in obtaining the title certificates.

Moreover, as at 31 December 2021, the Group was in the process of applying for the completion of final acceptance of the construction of the plant of Beikong Zhangjiagang from the relevant government authorities. The directors of the Company are of the opinion that the Group would not have any legal barriers in completing the final acceptance of the plant of Beikong Zhangjiagang or would not be subject to any administrative sanctions and the Group is legitimated to operate the plant of Beikong Zhangjiagang.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

13. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Notes: *(continued)*

(c) The Group's property, plant and equipment included the assets of a solid waste incineration plant of Taian Beikong (the "Taian Plant") under an operating concession arrangement on a Build-Own-Operate ("BOO") basis. During the year ended 31 December 2019, a portion of the assets of the Taian Plant was required for further modification in order to meet the new measures on environmental protection and emission imposed by the PRC government. According to the terms of the original service concession agreement, under such circumstance, the Group has the right to request for the increase in solid waste treatment fees from the local government for compensating the costs of modification to be borne by the Group and the Group had been in negotiation with the local government to revise the terms of the service concession agreement since the prior year.

According to the communication with the local government during the year ended 31 December 2020, the intention of the local government is to phase out a portion of the assets (the "Phased Out Assets") of the Taian Plant in order to meet the new measures on environmental protection and emission imposed by the PRC government and the losses to be suffered by the Group would be borne by the Group, while the Group would be compensated by the local government for those assets ("Remaining Assets") that could be continued to be used in the same project. Despite that the Group was still in negotiation with the local government to revise the terms of the service concession agreement, in the opinion of the directors of the Company, it was not likely that the Phased Out Assets could be recovered by the Group. Accordingly, impairment losses of HK$54,549,000, HK$12,725,000, and HK$55,123,000 had been recognised to write down the carrying amounts of the Phased Out Assets included in property, plant and equipment, right-of-use assets (leasehold land) (note 15) and other intangible assets (note 18) of the Taian Plant, respectively, to their respective recoverable amounts of zero during the year 31 December 2020.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

14. INVESTMENT PROPERTY

	2021 HK$'000	2020 HK$'000
Carrying amount as at 1 January	**48,571**	47,191
Fair value loss	**–**	(1,348)
Disposal	**(49,157)**	–
Exchange realignment	**586**	2,728
Carrying amount as at 31 December	**–**	48,571

The Group's investment property as at 31 December 2020 was a commercial property located at Block 5, Beikong Hong Chuang Technology Park, No. A1, Chaoqian Road, Changping District, Beijing, the PRC (the "Hong Chuang Building"), which was held under a medium term lease with 100% interest.

On 14 February 2012, the Company entered into a property transfer agreement with 北京北控宏創科技有限公司 ("Hong Chuang", an indirect wholly-owned subsidiary of BEHL and a fellow subsidiary of the Company), pursuant to which the Company agreed to purchase the Hong Chuang Building at a cash consideration of RMB32,000,460, of which RMB25,600,368 was paid by the Company in 2012.

On 31 August 2015 and 25 October 2018, the Company entered into property escrow agreements with Hong Chuang, pursuant to which Hong Chuang provided escrow services for sub-leasing the Hong Chuang Building for the period from 1 September 2015 to 31 August 2021 at an annual rent of RMB2,575,987. During the year, the rental income recognised in profit or loss amounted to HK$2,066,000 (2020: HK$2,894,000).

The Company and Hong Chuang have taken steps to apply for the transfer of real estate title of the Hong Chuang Building, however, due to the change of regulations and policies in the PRC, the transfer of real estate title of the Hong Chuang Building cannot be proceeded. On 31 December 2021, the Company entered into a cancellation of property transfer agreement with Hong Chuang, pursuant to which, (i) the Company and Hong Chuang agreed to cancel the property transfer agreement; (ii) both parties will have no claim for damages against the counter party; and (iii) Hong Chuang will refund the property transfer partial consideration of approximately RMB25,600,000 previously paid by the Company which was subsequently settled on 19 January 2022. The cancellation transaction was effected on 31 December 2021 and hence the investment property was derecognised during the year and a loss on disposal of HK$10,602,000 was resulted.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of land and buildings, 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 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of land and buildings generally have lease terms between 2 and 5 years. Machinery, motor vehicles and other equipment generally have lease terms of 12 months or less and/or are individually of low value and hence the leases of these assets are not recognised as right-of-use assets in accordance with the Group's accounting policy. Generally, the Group is restricted from assigning and sub-leasing the leased assets outside the Group.

(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:

	Buildings	Leasehold land	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2020	29,124	47,203	76,327
Additions	14,908	–	14,908
Depreciation provided during the year	(14,580)	(1,146)	(15,726)
Impairment provided during the year (note (ii))	–	(12,725)	(12,725)
Exchange realignment	1,753	1,984	3,737
At 31 December 2020 and 1 January 2021	**31,205**	**35,316**	**66,521**
Depreciation provided during the year	**(14,025)**	**(899)**	**(14,924)**
Lease modification	**(5,873)**	**–**	**(5,873)**
Exchange realignment	**519**	**850**	**1,369**
At 31 December 2021	**11,826**	**35,267**	**47,093**

Notes:

(i) At 31 December 2021, the leasehold land in relation to a solid waste incineration plant with a net carrying amount of HK$7,812,000 (2020: HK$7,848,000) was pledged to secure a bank loan granted to the Group (note 29(c)).

(ii) Details of the impairment of the leasehold land provided during the year ended 31 December 2020 are set out in note 13(c) to the financial statements.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

15. LEASES *(CONTINUED)*

The Group as a lessee *(continued)*

(b) Lease liabilities

The carrying amount of lease liabilities (included under "Other payables and accruals" – note 34) and the movements during the year are as follows:

	Note	**2021 HK$'000**	2020 HK$'000
At 1 January		**31,820**	30,571
New leases		**–**	14,908
Lease modification		**(6,045)**	–
Accretion of interest recognised during the year		**1,402**	1,528
Payments		**(14,885)**	(14,971)
Exchange realignment		**2,689**	(216)
At 31 December	34	**14,981**	31,820
Current portion		**(7,017)**	(11,610)
Non-current portion		**7,964**	20,210

The maturity analysis of lease liabilities is disclosed in note 41(d) to the financial statements.

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

	2021 HK$'000	2020 HK$'000
Interest on lease liabilities	**1,402**	1,528
Depreciation of right-of-use assets	**14,924**	15,726
Expense relating to short-term leases	**5,920**	5,762
Expense relating to leases of low-value assets	**179**	185
Gain on lease modifications	**(172)**	–
Total amount recognised in profit or loss	**22,253**	23,201

(d) The total cash outflow for leases included in the consolidated statement of cash flows is disclosed in note 36(b) to the financial statements.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

15. LEASES *(CONTINUED)*

The Group as a lessor

The Group leases its investment property, which is a commercial property in Mainland China, to a fellow subsidiary under an operating lease arrangement. The term of the lease provides for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was HK$2,066,000 (2020: HK$2,894,000), details of which are included in note 14 to the financial statements.

At 31 December 2020, the total undiscounted lease payments receivable by the Group under the non-cancellable operating lease with its tenant was HK$1,930,000, which is wholly receivable within one year.

16. GOODWILL

	2021 **HK$'000**	2020 HK$'000
At 1 January and 31 December:		
Cost and net carrying amount	**1,122,551**	1,122,551

Impairment testing of goodwill

The carrying amount of the goodwill acquired through the acquisition of subsidiaries has been allocated to the solid waste treatment segment of the Group for impairment testing.

The recoverable amount of the solid waste treatment segment has been determined based on a value-in-use calculation using cash flow projections based on financial forecasts of the cash-generating units approved by senior management covering the service concession periods and based on the assumption that sizes of the operations remain constant perpetually. The discount rate applied to the cash flow projections was 9% (2020: 9.2%). The growth rate used to extrapolate the cash flows beyond the service concession periods was 3% (2020: 3%).

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).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

16. GOODWILL *(CONTINUED)*

Impairment testing of goodwill *(continued)*

Key assumptions used in assessing the value in use

Assumptions were used in the value-in-use calculation of the solid waste treatment segment for 31 December 2021 and 31 December 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Budgeted turnover: It is based on the projected solid waste treatment volume and the latest solid waste treatment and electricity selling prices up to the date of the forecast.

- Budgeted gross margins: The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

- Business environment: There have been no major changes in the existing political, legal and economic conditions in Mainland China. Under the service concession arrangements, the Group has been granted with priority for renewal of operating rights of its solid waste incineration plants. Given its performance record and its relationship with the grantors, the Group has key advantages over other operators. In addition, the high investment cost has also created an entry barrier for new competitors. Therefore, in the opinion of the directors of the Company, the operating rights of solid waste incineration plants shall be renewed upon expiry, and therefore, the size of the solid waste treatment operation is expected to remain constant perpetually, which enables the Group to generate income perpetually.

- Discount rates: The discount rates used are after tax and reflect specific risks relating to the relevant business units. The pre-tax discount rate implied in the cash flow projections is 10.0% for the relevant business units (2020: 10.3%).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

17. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into service concession arrangements with governmental authorities in Mainland China on a Build-Operate-Transfer ("BOT") basis in respect of the construction and operation of solid waste incineration plants. These service concession arrangements involve the Group as an operator in (i) constructing the incineration plants (the "Facilities") for those arrangements on a BOT basis; and (ii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 15 to 30 years (the "Service Concession Periods"), and the Group will be paid for its services over the Service Concession Periods at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the Facilities, but the relevant governmental authorities as grantors retain the beneficial entitlement to any residual interest in the Facilities at the end of the term 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 relevant subsidiaries and the relevant governmental authority in Mainland China that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied 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.

Details of the major terms of the Group's service concession arrangements are set out as follows:

Name of company as operator	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (tonnes/day)	Service concession period
Changde Zhonglian	Hunan	常德市環境衛生管理處	BOT	Phase I: 800	27 years from 2010 to 2037
				Phase II: 600	25 years from 2019 to 2044
				Phase III: 600	27 years from 2020 to 2047
Beikong Lvhaineng	Beijing	北京市海淀區市政市容管理委員會	BOT	2,100	30 years from 2018 to 2048
Beijing Gaoantun	Beijing	北京市朝陽區市政市容管理委員會	BOT	1,600	30 years from 2005 to 2034
Ha'erbin Shuangqi	Heilongjiang	哈爾濱市城市管理局	BOT	Phase I: 400	30 years from 2013 to 2043
				Phase II: 1,200	30 years from 2013 to 2043
Beikong Shuyang	Jiangsu	江蘇省沭陽縣人民政府	BOT	Phase I: 600	30 years from 2015 to 2045
				Phase II: 600	30 years from 2018 to 2048
Beikong Wenchang	Hainan	海南省文昌市人民政府	BOT	225	15 years from 2012 to 2027
Hunan Hengxing	Hunan	湖南省環境保護廳	BOT	96	25 years from 2017 to 2042
Beikong Zhangjiagang	Jiangsu	張家港市靜脈科技產業園管理委員會	BOT	2,250	30 years from 2021 to 2051
Beikong Jining	Shandong	濟寧市兗州區綜合行政執法局	BOT	1,500	30 years from 2020 to 2049

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

17. SERVICE CONCESSION ARRANGEMENTS *(CONTINUED)*

Pursuant to the service concession agreements, the Group is granted the rights to use the land and the property, plant and equipment of the Facilities, which are generally registered under the name of the relevant subsidiaries of the Group, during the Service Concession Periods, but the Group is generally required to return the property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods under the BOT arrangements. At 31 December 2021, the Group was in the process of applying for the change of registration of the title certificates with respect to the land use right and the buildings of several 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 and that the Group would not have any legal barriers in obtaining the title certificates.

Moreover, the Group was in the process of applying for the completion of final acceptance and certain permits of the Facilities from the relevant government authorities up to the date of approval of these financial statements. The directors and the legal adviser of the Company are of the opinion that the Group is legitimated to operate the Facilities and that the Group would not have any legal barriers which prevent it from obtaining the relevant permits and it is unlikely for the Group to incur any extra costs or administrative sanctions in respect of the matters.

As further explained in the accounting policy for "Service concession arrangements" set out in note 2.5 to the financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession), a financial asset (receivable under service concession arrangements) or a combination of an intangible asset and a financial asset, as appropriate.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

17. SERVICE CONCESSION ARRANGEMENTS *(CONTINUED)*

Operating concessions

	2021 **HK$'000**	2020 HK$'000
At 1 January:		
Cost	**3,118,324**	2,556,559
Accumulated amortisation and impairment	**(679,271)**	(424,284)
Net carrying amount	**2,439,053**	2,132,275
Net carrying amount:		
At 1 January	**2,439,053**	2,132,275
Additions	**714,891**	405,911
Actual cost adjustment	**(1,100)**	(19,333)
Amortisation provided during the year	**(103,869)**	(101,657)
Impairment provided during the year (notes)	**(115,585)**	(115,169)
Exchange realignment	**65,518**	137,026
At 31 December	**2,998,908**	2,439,053
At 31 December:		
Cost	**3,916,876**	3,118,324
Accumulated amortisation and impairment	**(917,968)**	(679,271)
Net carrying amount	**2,998,908**	2,439,053

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

17. SERVICE CONCESSION ARRANGEMENTS *(CONTINUED)*

Operating concessions *(continued)*

Notes:

(a) On 29 September 2020, the Ministry of Finance, the National Development and Reform Commission and the National Energy Administration of the PRC issued the supplementary circular on issues related to the "Opinions on promoting the healthy development of non-hydro renewable power generation" (Caijian [2020] No. 426) (the "Supplementary Circular"). According to the Supplementary Circular, solid waste treatment projects of the Group will not be entitled to renewable energy tariff subsidies when the operation period exceeds the prescribed lifetime operation hours or years, whichever period is the shorter, or the volume of electricity against which tariff subsidies that have been claimed exceeds the prescribed volume. Accordingly, the future operating cashflows of the solid waste treatment segment of the Group will be affected by the Supplementary Circular.

In light of the above, for the year ended 31 December 2020, management appointed an independent professional valuer to estimate the recoverable amount of relevant assets of each of the Group's cash-generating units comprising the solid waste treatment segment. The recoverable amounts of the related assets were estimated based on a value-in-use calculation using cash flow projections based on financial forecasts approved by senior management and after taking into consideration of the impact of the Supplementary Circular on the cash flow projections. The pre-tax discount rate applied to the cash flow projections was 10.3%. Based on the results of the impairment assessment, the recoverable amounts of certain solid waste treatment projects with a then total carrying amount of RMB1,173,046,000 were estimated to be approximately RMB1,070,546,000, and impairment losses of RMB102,500,000 (equivalent to HK$115,169,000) was recognised against the operating concessions of the Group during the year ended 31 December 2020.

(b) During the year ended 31 December 2021, the Group's hazardous waste treatment plant of Hunan Hengxing has temporarily reduced the volume of medical waste treatment and suspended the hazardous waste treatment operations due to pollution caused to the surrounding environment and the existence of residents in the protection area of the hazardous waste treatment plant boundary. In the opinion of the directors of the Company, the hazardous waste treatment volume of the plant will be reduced in the future, which indicated that the related assets of the service concession arrangement, with a net carrying amount of RMB182,794,000 as at 31 December 2021, might have been impaired. In this regard, management appointed an independent professional valuer to estimate the recoverable amount of the related non-current assets based on a value-in-use calculation using cash flow projections based on financial forecasts covering the service concession period approved by senior management. The pre-tax discount rate applied to the cash flow projections was 10.0%. Based on the results of the impairment assessment, the recoverable amount of the Hunan Hengxing project was estimated to be approximately RMB81,638,000, and impairment losses of RMB95,936,000 (equivalent to HK$115,585,000) and RMB5,220,000 (equivalent to HK$6,289,000) were recognised against the operating concession and other intangible assets during the year ended 31 December 2021, respectively.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

17. SERVICE CONCESSION ARRANGEMENTS *(CONTINUED)*

Receivables under service concession arrangements

	2021 **HK$'000**	2020 HK$'000
Receivables under service concession arrangements	**2,610,623**	2,233,650
Current portion	**(71,357)**	(67,856)
Non-current portion	**2,539,266**	2,165,794

Details of contract assets which are presented as operating concessions and receivables under service concession arrangements are as follows:

	31 December **2021** **HK$'000**	31 December 2020 HK$'000	1 January 2020 HK$'000
Operating concessions	**1,075,518**	324,338	143,544
Receivables under service concession arrangements	**530,492**	96,438	89,053
	1,606,010	420,776	232,597

Contract assets are initially recognised for revenue earned from the provision of construction services for the infrastructures during the period of construction under the service concession arrangements. Pursuant to the service concession agreements, the Group receives no payment from the grantors during the construction period and receives service fees when the relevant solid waste treatment services are rendered. The receivables under service concession arrangements (including the contract assets therein) are not yet due for payment and will be settled by service fees to be received during the operating periods of the service concession arrangements. Amounts billed will then be transferred to trade receivables (note 22). The increase in contract assets in 2021 was the result of the continuing construction of certain solid waste incineration plants of the Group. The Group's exposure to credit risk is insignificant and the directors of the Company are of the opinion that the ECL of the contract assets is minimal. The Group's trading terms and credit policy with customers are disclosed in note 22(a) to the financial statements.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

18. OTHER INTANGIBLE ASSETS

	Operating rights HK$'000	Licences HK$'000	Computer software HK$'000	Total HK$'000
31 December 2021				
At 1 January 2021:				
Cost	**126,947**	**26,191**	**3,357**	**156,495**
Accumulated amortisation and impairment	**(87,664)**	**(11,820)**	**(1,443)**	**(100,927)**
Net carrying amount	**39,283**	**14,371**	**1,914**	**55,568**
Net carrying amount:				
At 1 January 2021	**39,283**	**14,371**	**1,914**	**55,568**
Additions	**–**	**–**	**325**	**325**
Amortisation provided during the year	**(1,729)**	**(946)**	**(370)**	**(3,045)**
Impairment provided during the year (note (c))	**–**	**(6,289)**	**–**	**(6,289)**
Exchange realignment	**938**	**262**	**46**	**1,246**
At 31 December 2021	**38,492**	**7,398**	**1,915**	**47,805**
At 31 December 2021:				
Cost	**130,044**	**26,829**	**3,768**	**160,641**
Accumulated amortisation and impairment	**(91,552)**	**(19,431)**	**(1,853)**	**(112,836)**
Net carrying amount	**38,492**	**7,398**	**1,915**	**47,805**
31 December 2020				
At 1 January 2020:				
Cost	119,816	24,719	2,643	147,178
Accumulated amortisation	(22,870)	(10,274)	(1,157)	(34,301)
Net carrying amount	96,946	14,445	1,486	112,877
Net carrying amount:				
At 1 January 2020	96,946	14,445	1,486	112,877
Additions	–	–	521	521
Amortisation provided during the year	(4,747)	(882)	(200)	(5,829)
Impairment provided during the year (note (c))	(55,123)	–	–	(55,123)
Exchange realignment	2,207	808	107	3,122
At 31 December 2020	39,283	14,371	1,914	55,568
At 31 December 2020:				
Cost	126,947	26,191	3,357	156,495
Accumulated amortisation and impairment	(87,664)	(11,820)	(1,443)	(100,927)
Net carrying amount	39,283	14,371	1,914	55,568

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

18. OTHER INTANGIBLE ASSETS *(CONTINUED)*

Notes:

(a) Certain subsidiaries acquired by the Group were under service concession arrangements with governmental authorities in Mainland China on a BOO basis for the construction and operation of solid waste incineration plants. The costs of operating rights represent their fair values under the BOO arrangements acquired by the Group in prior years. Details of the major terms of the BOO arrangements are set out as follows:

Name of company as operator	**Location**	**Type of service concession arrangement**	**Practical processing capacity** (tonnes/day)	**Service concession period**
Taian Beikong	Shandong	BOO	Phase I: 800	30 years from 2008 to 2038
			Phase II: 1,200	Not yet finalised
Beikong Zhangjiagang	Jiangsu	BOO	Phase I: 600	30 years from 2008 to 2038
			Phase II: 300	30 years from 2014 to 2044

(b) At 31 December 2021, the Group was in the process of applying for the completion of final acceptance of the construction of the plant of Beikong Zhangjiagang by the relevant government authorities. The directors of the Company are of the opinion that the Group has no legal barriers in completing the final acceptance of the plant of Beikong Zhangjiagang or subject to any administrative sanctions and the Group is legitimated to operate the plant of Beikong Zhangjiagang.

(c) Details of the impairment of the operating rights in 2020 and licences in 2021 are disclosed in notes 13(c) and 17(b) to the financial statements, respectively.

19. INVESTMENT IN A JOINT VENTURE

	2021 **HK$'000**	2020 HK$'000
Share of net assets	**6,652**	6,652

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

19. INVESTMENT IN A JOINT VENTURE *(CONTINUED)*

Particulars of the Group's joint venture, which is indirectly held by the Company, are as follows:

			Percentage of			
Name	**Place of incorporation and business**	**Issued and paid-up capital**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activities**
Beijing Enterprises SITA Environmental Services Company Limited	Hong Kong	HK$10,000,000	60	50	60	Provision of consultancy services and technical support on environmental protection

20. CONTRACT ASSETS

	31 December 2021 HK$'000	31 December 2020 HK$'000	1 January 2020 HK$'000
Contract assets arising from:			
Waste incineration plant construction services	**1,638,352**	454,281	275,027
Ecological construction services	**295,157**	366,054	181,219
Total contract assets	**1,933,509**	820,335	456,246
Non-current portion classified in operating concessions and receivables under service concession arrangements (note 17)	**(1,606,010)**	(420,776)	(232,597)
Current portion	**327,499**	399,559	223,649

Contract assets are initially recognised for revenue earned from the provision of construction of waste incineration plant services and ecological construction services as the receipt of consideration is conditional or successful completion of construction. All contract assets classified as current assets as at 31 December are expected to be recovered or settled within one year. The increase in contract assets in 2021 and 2020 was the result of the increase in the ongoing provision of construction services during the years. The Group's exposure to credit risk is insignificant and the directors of the Company are of the opinion that the ECLs for the contract assets are minimal.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

21. INVENTORIES

	2021 HK$'000	2020 HK$'000
Raw materials – coal and consumables	**47,089**	43,842

22. TRADE AND BILLS RECEIVABLES

	2021 HK$'000	2020 HK$'000
Trade receivables	**687,249**	524,190
Bills receivable	**8,184**	1,190
	695,433	525,380
Impairment (note (c))	**(14,786)**	(9,000)
	680,647	516,380

Notes:

(a) Various companies of the Group 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 to three months. An ageing analysis of the trade and bills receivables is regularly prepared and closely monitored in order to minimise any related credit risk. Trade and bills receivables are non-interest-bearing and the Group does not hold any collateral or other credit enhancements over its trade receivable balances.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

22. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

Notes: *(continued)*

(b) An ageing analysis of the Group's trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2021	2020
	HK$'000	HK$'000
Billed:		
Within 3 months	**218,320**	203,761
4 to 6 months	**48,707**	20,764
7 to 12 months	**34,274**	18,418
1 to 2 years	**12,109**	23,377
2 to 3 years	**2,017**	2,738
Over 3 years	**5,945**	3,664
	321,372	272,722
Unbilled*	**359,275**	243,658
	680,647	516,380

* The unbilled balance represents entitlements to renewable energy tariff subsidies from the sale of electricity.

(c) The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2021	2020
	HK$'000	HK$'000
At 1 January	**9,000**	8,307
Impairment losses provided during the year, net	**5,501**	186
Exchange realignment	**285**	507
At 31 December	**14,786**	9,000

(d) An impairment analysis is performed for the Group's trade and bills receivables at the end of each reporting period, using an ECL model which measures ECLs of trade and bills receivables based on ECL rates estimated by the Group for different groups of customers. The ECL rates used for a particular group of customers are estimated with reference to the ageing of the receivables, the credit rating, probabilities of default and loss given default rate of that customer group. 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 forecasts of future economic conditions.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

22. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

Notes: *(continued)*

(d) *(continued)*

Set out below is a summarised information about the credit risk exposure on the Group's trade and bills receivables, by aggregating customer groups into three different tiers based on their settlement patterns and econcomic status of their geographical locations:

	Gross carrying amount HK$'000	**ECLs** HK$'000	**Effective ECL rate** %	**Probability of default rates applied** %	**Loss given default rates applied** %
At 31 December 2021					
Tier 1	**321,112**	**2,207**	**0.69**	**0.08 to 5.30**	**56.5 to 64.9**
Tier 2	**188,627**	**1,837**	**0.97**	**0.17 to 5.30**	**56.5 to 63.5**
Tier 3*	**185,694**	**10,742**	**5.78**	**0.59 to 100**	**56.5 to 100**
	695,433	**14,786**	**2.13**	**0.08 to 100**	**56.5 to 100**
At 31 December 2020					
Tier 1	264,595	251	0.09	0.01 to 0.03	56.5 to 63.5
Tier 2	135,144	401	0.30	0.03 to 0.25	56.5 to 63.5
Tier 3*	125,641	8,348	6.64	0.29 to 100	56.5 to 100
	525,380	9,000	1.71	0.01 to 100	56.5 to 100

* Included impairment losses of HK$10,007,000 (2020: HK$8,466,000) in total recognised as at 31 December 2021 in respect of specific customers as there was no reasonable expectation for recovering the trade receivables from them.

(e) At 31 December 2021, certain trade receivables of HK$130,947,000 (2020: HK$55,660,000) in total arising from the provision of solid waste treatment services are pledged to secure bank loans granted to the Group (note 29(c)).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	**2021 HK$'000**	2020 HK$'000
Prepayments		**49,656**	99,272
Deposits and other receivables	(a)	**167,008**	67,801
Due from fellow subsidiaries	(b)	**48,679**	7,384
Due from non-controlling equity holders of subsidiaries	(b)	**27,426**	6,860
		292,769	181,317
Impairment	(c)	**(6,031)**	(5,902)
		286,738	175,415
Current portion		**(261,720)**	(175,230)
Non-current portion		**25,018**	185

Notes:

(a) Deposits and other receivables mainly represent value added tax recoverable, rental deposits and deposits with suppliers.

(b) The balances with fellow subsidiaries and non-controlling equity holders are unsecured, interest-free and repayable on demand.

(c) The movements in the loss allowance for impairment of deposits and other receivables during the year is as follows:

	2021 HK$'000	2020 HK$'000
At 1 January	**5,902**	5,664
Exchange realignment	**129**	238
At 31 December	**6,031**	5,902

Other than those other receivables for which impairment losses have been provided, none of the above assets is either past due or impaired and relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2021 and 2020, the loss allowance was assessed to be minimal.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Notes	**2021 HK$'000**	2020 HK$'000
Cash and bank balances other than time deposits:			
Placed in banks		**1,412,475**	1,305,564
Placed in a financial institution	(c)	**32,362**	33,031
		1,444,837	1,338,595
Time deposits, placed in banks		**139,489**	188,563
		1,584,326	1,527,158
Less: Pledged deposits	(d)	**(5,588)**	(7,122)
Cash and cash equivalents		**1,578,738**	1,520,036

Notes:

(a) At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$1,114,933,000 (2020: HK$1,116,326,000). 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.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one month and two years depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

(c) At 31 December 2021, HK$32,362,000 (2020: HK$33,031,000) was placed by the Group in Beijing Enterprises Group Finance Co., Ltd. ("BG Finance", a non-wholly-owned subsidiary of BEGCL and a fellow subsidiary of the Company), which is an authorised financial institution registered under the China Banking Regulatory Commission (note 38(a)(iii)).

(d) At 31 December 2021, security deposits of HK$5,588,000 (2020: HK$7,122,000) were pledged to the government authorities and a customer for the provision of construction and related services of solid waste treatment plants.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

25. SHARE CAPITAL

Shares

	2021 HK$'000	2020 HK$'000
Issued and fully paid:		
1,500,360,150 ordinary shares	**2,227,564**	2,227,564

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 26 to the financial statements.

26. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of (i) attracting and retaining the best quality personnel for the development of the Company's business; (ii) providing incentives and rewards to eligible participants; and (iii) promoting the long term financial success of the Company by aligning the interests of grantees to shareholders. Eligible participants of the Scheme include (i) any person employed by the Company or a subsidiary of the Company and any person who is an officer or director (whether executive or non-executive) of the Company or any subsidiary of the Company; (ii) any non-executive director and any independent non-executive director, or officer of any member of the Group; and (iii) any consultant of any member of the Group. The Scheme became effective on 31 May 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 number of ordinary shares of the Company in issue at any time. 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 ordinary shares of the Company in issue at any time. Any further grant of share options in excess of these limits is subject to shareholders' approval in a general meeting.

Share options granted to a director or chief executive of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the ordinary shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's ordinary shares 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 of the Company, and commences after the acceptance of the share options or a certain vesting period, if any, and ends on a date which is not later than ten years from the date on which the offer of the share options is granted.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

26. SHARE OPTION SCHEME *(CONTINUED)*

The exercise price of share options is determinable by the directors of the Company, but may not be less than the higher of (i) the closing price of the Company's shares on the Stock Exchange on the date of offer of the share options; and (ii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. The share options are non-transferable and lapse when they expire or within three months from the date on which the grantee ceases to be an employee of the Group.

The Scheme expired on 20 June 2021. In respect of the 37,620,000 share options granted under the Scheme and outstanding as at 31 December 2020, 6,770,000 share options were forfeited on 3 January 2021 upon the expiry of the 12-month post-retirement exercisable period of a former executive director of the Company and the remaining 30,850,000 share options lapsed on 20 June 2021 upon the expiry of the 10-year exercisable period. Accordingly the share option reserve of the Group in relation to these share options in a total amount of HK$20,789,000 (2020: Nil) was transferred to retained profits during the year.

There was no share option granted under the Scheme which remained outstanding as at 31 December 2021.

27. OTHER RESERVES

(a) The amounts of the Group's other 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 reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payments in note 2.5 to the financial statements. The amount will either be transferred to the share capital account when the related share options are exercised, or transferred to retained profits should the related share options lapse or be forfeited.

(c) 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 Investments as applicable to the Group's PRC subsidiaries. None of the Group's PRC reserve funds as at 31 December 2021 was distributable in the form of cash dividends (2020: Nil).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

28. CONVERTIBLE BOND

A summary of the movements in the principal amount, and the liability and equity components of the Company's convertible bond during the years ended 31 December 2021 and 2020 is as follows:

	2021 HK$'000	2020 HK$'000
Principal amount outstanding		
At 1 January	**2,202,300**	2,202,300
Transfer to an amount due to the immediate holding company upon maturity	**(2,202,300)**	–
At 31 December	**–**	2,202,300
Liability component		
At 1 January	**2,177,112**	2,147,168
Imputed interest expense	**25,188**	29,944
Transfer to an amount due to the immediate holding company upon maturity	**(2,202,300)**	–
At 31 December	**–**	2,177,112
Equity component		
At 1 January	**147,029**	147,029
Transfer to retained profits upon maturity	**(147,029)**	–
At 31 December	**–**	147,029

On 31 October 2016, pursuant to the completion of the acquisition of certain equity interests in companies engaged in the solid waste treatment business from BEHL, the Company issued a convertible bond in the principal amount of HK$2,202,300,000 to Idata as consideration. The convertible bond had an initial conversion price of HK$1.13 per ordinary share of the Company and bore no interest. Further details of the acquisition are set out in the circular of the Company dated 24 June 2016. The convertible bond was matured on 31 October 2021 and the principal amount outstanding was transferred to amount due to the immediate holding company during the year (note 34).

The Company's convertible bond is bifurcated into liability and equity components for accounting purposes. The component of convertible bond that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. On issuance of convertible bond, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

29. BANK AND OTHER BORROWINGS

	Notes	2021 HK$'000	2020 HK$'000
Bank loan – unsecured	(b)	**12,182**	–
Bank loans – secured	(c)	**943,438**	287,232
		955,620	287,232
Other loans – unsecured			
A fellow subsidiary	(d)	**678,585**	713,619
Others	(e)	**38,659**	51,191
		717,244	764,810
Total bank and other borrowings		**1,672,864**	1,052,042
Portion classified as current liabilities		**(217,914)**	(165,604)
Non-current portion		**1,454,950**	886,438

Notes:

(a) The Group's bank and other borrowings were all denominated in RMB.

(b) At 31 December 2021, the Group's unsecured bank loan bears interest at the Loan Prime Rate (the "LPR") of five years or above promulgated by the People's Bank of China less 55 basis points and is repayable in 2022.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

29. BANK AND OTHER BORROWINGS (CONTINUED)

Notes: *(continued)*

(c) At 31 December 2021, the Group's secured bank loans bear interest at the LPR of five years or above promulgated by the People's Bank of China less 2 to 87 basis points (2020: less 2 to 58.3 basis points). They are secured by pledges over (i) the Group's buildings with a net carrying amount of HK$284,457,000 (2020: HK$282,873,000) (note 13(a)); (ii) the Group's leasehold land of HK$7,812,000 (2020: HK$7,848,000) (note 15(a)(i)); and (iii) the Group's trade receivables arising from the provision of solid waste treatment service with an aggregate net carrying amount of HK$130,947,000 (2020: HK$55,660,000) (note 22(e)) and are repayable by installments up to 2036 (2020: up to 2035).

(d) At 31 December 2021, the Group's other loans are granted by BG Finance (a fellow subsidiary) bear interest at the LPR of five years or above promulgated by the People's Bank of China less 4.4 to plus 10.3 basis points (2020: less 4.4 to plus 10.3 basis points), and are repayable by installments up to 2035 (2020: up to 2026).

(e) These other loans are repayable on demand and advanced from (i) non-controlling equity holders of a subsidiary in a total amount of HK$11,951,000 which bear interest at 4.35% per annum (2020: HK$5,952,000 was interest free and HK$19,167,000 bore interest at 4.35% to 6.525% per annum), and (ii) third parties in a total amount of HK$26,708,000 which bear interest at 4.35% per annum (2020: HK$26,072,000 bore interest at floating lending rates promulgated by the People's Bank of China).

30. PROVISION FOR MAJOR OVERHAULS

Pursuant to the service concession agreements entered into by the Group, the Group has contractual obligations to maintain the waste incineration plants it operates to a specified level of serviceability and/or to restore the plants to a specified condition before it is handed over to the grantors at the end of the service concession periods. These contractual obligations to maintain or restore the waste treatment and power generation plants, 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 waste incineration plants during the year are as follows:

	2021 **HK$'000**	2020 HK$'000
At 1 January	**9,283**	7,298
Additional provision	**1,144**	1,029
Increase in discounted amounts arising from the passage of time	**559**	435
Exchange realignment	**248**	521
At 31 December	**11,234**	9,283

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

31. DEFERRED INCOME

Deferred income of the Group represented government subsidies in respect of the Group's construction of the waste treatment and power generation plants in Mainland China. The subsidies are interest-free and not required to be repaid, and are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

32. DEFERRED TAX

An analysis of the net deferred tax assets/(liabilities) recognised in the consolidated statement of financial position is as follows:

	2021 **HK$'000**	2020 HK$'000
Deferred tax assets	**62,038**	18,307
Deferred tax liabilities	**(234,978)**	(217,320)
	(172,940)	(199,013)

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

	Losses available for offsetting against future taxable profits HK$'000	**Fair value adjustments arising from acquisition of subsidiaries** HK$'000	**Temporary differences related to service concession arrangements** HK$'000	**Impairment provision** HK$'000	**Provision for major overhauls** HK$'000	**Net deferred tax assets/ (liabilities)** HK$'000
At 1 January 2020	9,449	(56,202)	(213,162)	27,148	1,813	(230,954)
Deferred tax credited/(charged) to profit or loss during the year (note 11)	–	20,901	(19,106)	41,012	315	43,122
Exchange realignment	562	(2,102)	(13,938)	4,170	127	(11,181)
At 31 December 2020 and 1 January 2021	**10,011**	**(37,403)**	**(246,206)**	**72,330**	**2,255**	**(199,013)**
Deferred tax credited/(charged) to profit or loss during the year (note 11)	**(4,839)**	**3,362**	**5,457**	**26,278**	**296**	**30,554**
Exchange realignment	**186**	**(871)**	**(5,985)**	**2,130**	**59**	**(4,481)**
At 31 December 2021	**5,358**	**(34,912)**	**(246,734)**	**100,738**	**2,610**	**(172,940)**

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

32. DEFERRED TAX *(CONTINUED)*

Notes:

(a) At 31 December 2021, deferred tax assets have not been recognised in respect of (i) unused tax losses arising in Hong Kong of approximately HK$132,412,000 (2020: HK$132,412,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose; and (ii) unused tax losses arising in Mainland China of HK$122,393,000 (2020: HK$161,974,000) that will expire in one to five years for offsetting against future taxable profit, as they have arisen in 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.

(b) Pursuant to the PRC Corporate Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. 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 rates are 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China.

(c) 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 (2020: Nil). 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$1,433,041,000 (2020: HK$1,150,481,000) as at 31 December 2021.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

33. TRADE PAYABLES

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

	2021	2020
	HK$'000	HK$'000
Billed:		
Less than 3 months	**179,351**	198,167
4 to 6 months	**77,880**	51,544
7 to 12 months	**152,721**	48,982
Over 1 year	**99,520**	90,186
	509,472	388,879
Unbilled*	**227,582**	371,817
	737,054	760,696

* The unbilled balance represented construction payables for solid waste incineration plants and ecological construction services which have not been billed by the suppliers.

Notes:

(a) Included in the Group's trade payables is an amount of HK$36,952,000 (2020: HK$61,821,000) due to a non-controlling equity holder of a subsidiary, arising from transactions carried out in the ordinary course of business of the Group. The balance is unsecured, interest-free and repayable on credit terms similar to those offered by the non-controlling equity holder of a subsidiary to its major customers.

(b) The trade payables are non-interest-bearing and are normally settled within one to six months.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

34. OTHER PAYABLES AND ACCRUALS

	Notes	**2021 HK$'000**	2020 HK$'000
Other payables	(a)	**72,005**	82,927
Contract liabilities	(b)	**49,066**	3,962
Lease liabilities (note 15(b))		**14,981**	31,820
Accruals		**41,667**	32,528
Due to the immediate holding company	(c)	**2,693,300**	491,000
Due to fellow subsidiaries	(c)	**1,164,677**	1,080,837
Due to a joint venture	(c)	**5,522**	4,815
Total other payables and accruals		**4,041,218**	1,727,889
Current portion		**(4,033,254)**	(1,707,679)
Non-current portion		**7,964**	20,210

Notes:

(a) Other payables are non-interest-bearing and have an average term of three to six months.

(b) Details of contract liabilities are as follows:

	31 December 2021 HK$'000	31 December 2020 HK$'000	1 January 2020 HK$'000
Short-term advances received from customers in respect of:			
Hazardous and medical waste treatment services	**610**	1,263	1,383
Waste incineration plant construction and related services	**27,555**	–	3,556
Ecological construction and related services	**20,901**	2,699	13,082
Others	**–**	–	77
Total contract liabilities	**49,066**	3,962	18,098

The increase in contract liabilities in 2021 was mainly due to the increase in short-term advances received from customers in relation to the provision of waste incineration plant construction, ecological construction and related services during that year.

(c) The balances with the immediate holding company, fellow subsidiaries and a joint venture are unsecured, interest-free and repayable on demand.

Subsequent to the reporting period, the Company entered into a loan agreement with the immediate holding company (Idata) to refinance the amount due to it in a total principal amount of HK$2,693,300,000. The loan has a three-year tenure, is unsecured and bears interest at the rate of 1.7% per annum.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

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

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

	Beijing Gaoantun		Ha'erbin Shuangqi		Hunan Hengxing		Beifa Jining		Beikong Ecology	
	2021 HK$'000	2020 HK$'000	**2021 HK$'000**	2020 HK$'000	**2021 HK$'000**	2020 HK$'000	**2021 HK$'000**	2020 HK$'000	**2021 HK$'000**	2020 HK$'000
Percentage of equity interest held by non-controlling interests	**15.104%**	15.104%	**20%**	20%	**35%**	35%	**25%**	25%	**49%**	49%
Accumulated balances of non-controlling interests as at 1 January	**153,021**	151,213	**37,756**	32,799	**46,068**	45,499	**66,224**	–	**92,028**	60,764
Capital contribution	**–**	–	**–**	--	**–**	–	**13,012**	55,281	**13,277**	–
Profit/(loss) for the year attributable to non-controlling interests	**7,863**	(6,730)	**6,911**	2,836	**(29,762)**	(2,018)	**15,740**	7,564	**(26,973)**	26,094
Exchange realignment	**3,828**	8,538	**1,006**	2,121	**761**	2,587	**1,897**	3,379	**2,079**	5,170
Accumulated balances of non-controlling interests as at 31 December	**164,712**	153,021	**45,673**	37,756	**17,067**	46,068	**96,873**	66,224	**80,411**	92,028

The following table illustrates the summarised financial information of the above subsidiaries:

	Beijing Gaoantun		Ha'erbin Shuangqi		Hunan Hengxing		Beifa Jining		Beikong Ecology	
	2021 HK$'000	2020 HK$'000	**2021 HK$'000**	2020 HK$'000	**2021 HK$'000**	2020 HK$'000	**2021 HK$'000**	2020 HK$'000	**2021 HK$'000**	2020 HK$'000
Revenue	**246,381**	226,011	**138,196**	96,615	**52,032**	53,340	**451,353**	236,554	**193,702**	276,954
Cost of sales and total expenses	**(194,319)**	(270,569)	**(103,640)**	(82,433)	**(137,066)**	(59,107)	**(388,393)**	(206,300)	**(248,748)**	(223,700)
Profit/(loss) for the year	**52,062**	(44,558)	**34,556**	14,182	**(85,034)**	(5,767)	**62,960**	30,254	**(55,046)**	53,254
Current assets	**293,059**	286,053	**108,014**	86,394	**36,648**	32,248	**121,053**	81,425	**529,442**	541,898
Non-current assets	**766,388**	804,635	**745,645**	752,963	**107,334**	223,436	**818,390**	342,028	**40,801**	43,559
Current liabilities	**(61,569)**	(139,912)	**(173,783)**	(198,204)	**(33,796)**	(34,873)	**(147,038)**	(97,447)	**(395,663)**	(380,568)
Non-current liabilities	**(124,370)**	(122,611)	**(451,514)**	(452,371)	**(60,367)**	(89,188)	**(403,157)**	(85,380)	**(10,475)**	(17,076)
Net cash flows from/(used in) operating activities	**76,307**	111,891	**25,175**	86,319	**6,246**	7,479	**(36,052)**	(37,211)	**(17,387)**	41,152
Net cash flows from/(used in) investing activities	**(7,759)**	(11,876)	**(1,024)**	(41,076)	**(5,687)**	(1,169)	**(289,115)**	(234,006)	**(2,843)**	13,539
Net cash flows from/(used in) financing activities	**(50,042)**	(95,506)	**(32,273)**	(30,203)	**–**	–	**354,637**	280,903	**(3,486)**	(37,009)
Net increase/(decrease) in cash and cash equivalents	**18,506**	4,509	**(8,122)**	15,040	**559**	6,310	**29,470**	9,686	**(23,716)**	17,682

* The amounts disclosed above are before any inter-company eliminations.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	Bank and other borrowings HK$'000	Lease liabilities HK$'000	Convertible bond HK$'000
At 1 January 2020	986,927	30,571	2,147,168
New leases	–	14,908	–
Changes from financing cash flows	6,012	(14,971)	–
Imputed interest expenses	–	–	29,944
Interest expense	–	1,528	–
Foreign exchange movement	59,103	(216)	–
At 31 December 2020 and 1 January 2021	**1,052,042**	**31,820**	**2,177,112**
Changes from financing cash flows	**587,992**	**(14,885)**	**–**
Imputed interest expenses	**–**	**–**	**25,188**
Interest expense	**–**	**1,402**	**–**
Lease modifications	**–**	**(6,045)**	**–**
Transfer to an amount due to the immediate holding company upon maturity	**–**	**–**	**(2,202,300)**
Foreign exchange movement	**32,830**	**2,689**	**–**
At 31 December 2021	**1,672,864**	**14,981**	**–**

(b) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2021 HK$'000	2020 HK$'000
Within operating activities	**7,501**	7,475
Within financing activities	**14,885**	14,971
	22,386	22,446

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

37. CAPITAL COMMITMENTS

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

	2021 **HK$'000**	2020 HK$'000
Contracted, but not provided for:		
Service concession arrangements on a BOO basis	**45,516**	59,232
Service concession arrangements on a BOT basis	**997,549**	978,444
	1,043,065	1,037,676

In respect of the capital commitments as at 31 December 2021 disclosed above, HK$615,771,000 of which is expected to be incurred in the year ending 31 December 2022.

38. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

Name of related party	**Nature of transactions**	Notes	**2021** **HK$'000**	2020 HK$'000
Fellow subsidiaries:				
Hong Chuang	Rental income#	(i)	**2,066**	2,894
	Disposal of an investment property@	(ii)	**49,157**	–
BG Finance	Interest income#	(iii)	**120**	244
	Interest expense	(iv)	**33,435**	32,719

\# These transactions constitute continuing connected transactions that are subject to the announcement, reporting and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

@ This transaction constitutes a connected transaction of the Company that is subject to the reporting and announcement requirements but is exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Notes:

(i) The rental income received from Hong Chuang in respect of the Hong Chuang Building was mutually agreed between the parties under the property escrow agreement dated 25 October 2018 and was determined with reference to the prevailing market rent generally applicable to similar properties in the market. Further details of the transaction are set out in the announcement of the Company dated 25 October 2018.

(ii) On 31 December 2021, the Company and Hong Chuang agreed to cancel the property transfer agreement which was entered into between the two parties on 14 February 2012. Details of the transaction are set out in note 14 to the financial statements.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

38. RELATED PARTY DISCLOSURES *(CONTINUED)*

(a) *(continued)*

Notes: *(continued)*

(iii) The interest income received from BG Finance was mutually agreed between the parties under the deposit services master agreement dated 23 December 2020, pursuant to which the Group may, in its ordinary and usual course of business, place and maintain deposits with BG Finance on normal commercial terms from time to time for the period from 1 January 2021 to 31 December 2023. The deposit rate will not be lower than (i) the benchmark interest rate prescribed by the People's Bank of China; (ii) the interest rates offered by commercial banks in Hong Kong and the PRC to the Group; and (iii) the interest rates offered by BG Finance to other members of BEGCL for the same type of deposits at the same period; and the cumulative daily outstanding deposit balance in Hong Kong dollars equivalent placed by the Group with BG Finance (including any interest accrued thereon) during the term of the agreement will not exceed HK$40,000,000. Further details of the transactions are set out in the announcement of the Company dated 23 December 2020.

(iv) The interest expense was paid for loans obtained from BG Finance and the interest rates were mutually agreed with BG Finance, which will not be higher than the interest rates prescribed by the People's Bank of China at the same period.

(b) Outstanding balances with related parties

(i) Details of the Group's balances with the immediate holding company, fellow subsidiaries, a joint venture and non-controlling equity holders included in prepayments, deposits and other receivables, convertible bond, bank and other borrowings, trade payables and other payables and accruals are disclosed in notes 23, 28, 29, 33(a) and 34(c) to the financial statements, respectively.

(ii) Details of the Group's cash deposits placed in and other loans borrowed from a fellow subsidiary and related parties as at the end of the reporting period are disclosed in notes 24(c), 29(d) and 29(e) to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

38. RELATED PARTY DISCLOSURES *(CONTINUED)*

(c) Compensation of key management personnel of the Group

	2021 **HK$'000**	2020 HK$'000
Short term employee benefits	**12,154**	12,725
Post-employment benefits	**710**	145
Total compensation paid to key management personnel	**12,864**	12,870

Further details of directors' emoluments are included in note 9 to the financial statements.

(d) Transactions with other state-owned entities in Mainland China

The Company is a state-owned enterprise of the PRC government and is subject to the control of the Beijing SASAC and the ultimate control of the PRC government. 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 Other SOEs including, but not limited to, bank deposits and borrowings and utilities consumptions. The directors of the Company consider that the transactions with Other SOEs were activities in the ordinary course of the Group's businesses, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and 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 do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the directors of the Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

39. FINANCIAL INSTRUMENTS BY CATEGORY

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.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and liabilities which are due to be received or settled within one year and the liability component of the convertible bond are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made.

For other non-current financial assets and liabilities, in the opinion of the directors of 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 *(CONTINUED)*

31 December 2021

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and bank balances, bank and other borrowings. These financial instruments are used for the Group's working capital. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are (a) interest rate risk, (b) foreign currency risk, (c) credit risk and (d) liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Interest rate risk

The following table sets out the carrying amounts of the Group's financial instruments as at the end of the reporting period that are exposed to interest rate risk:

		Effective interest rate
	HK$'000	%
31 December 2021		
Floating rate:		
Pledged deposits	**5,588**	**0.83**
Bank balances	**1,439,715**	**0.68**
Bank and other borrowings	**1,634,205**	**4.33**
Fixed rate:		
Time deposits	**139,023**	**0.70**
Other borrowings	**38,659**	**4.35**
31 December 2020		
Floating rate:		
Pledged deposits	7,122	0.28
Bank balances	1,331,929	0.66
Bank and other borrowings	1,034,304	4.42
Fixed rate:		
Time deposits	188,107	1.23
Other borrowings	17,738	–

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(b) Foreign currency risk

The Group's businesses are mainly carried out by subsidiaries located in Mainland China and the majority of its transactions are conducted in RMB. The Group therefore has a minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. However, the net assets of these Mainland China subsidiaries are exposed to foreign currency translational risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax and of the Group's equity resulted from the translation of the Group's foreign operations.

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	HK$'000	HK$'000
2021			
If HK$ weakens against RMB	**5**	**16,275**	**215,042**
If HK$ strengthens against RMB	**(5)**	**(16,275)**	**(215,042)**
2020			
If HK$ weakens against RMB	5	19,123	267,807
If HK$ strengthens against RMB	(5)	(19,123)	(267,807)

(c) Credit risk

The Group trades only with recognised and creditworthy third parties and receivable balances are monitored on an ongoing basis, and therefore, the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of the reporting period. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(c) Credit risk *(continued)*

Maximum exposure and year-end staging *(continued)*

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	**Stage 2** HK$'000	**Stage 3** HK$'000	**Simplified approach** HK$'000	**Total** HK$'000
31 December 2021					
Contract assets*	**–**	**–**	**–**	**327,499**	**327,499**
Trade and bills receivables*	**–**	**–**	**–**	**695,433**	**695,433**
Receivables under service concession arrangements	**2,610,623**	**–**	**–**	**–**	**2,610,623**
Financial assets included in prepayments, deposits and other receivables – Normal#	**237,082**	**–**	**–**	**–**	**237,082**
Pledged deposits – Not yet past due	**5,588**	**–**	**–**	**–**	**5,588**
Cash and cash equivalents – Not yet past due	**1,578,738**	**–**	**–**	**–**	**1,578,738**
	4,432,031	**–**	**–**	**1,022,932**	**5,454,963**
31 December 2020					
Contract assets*	–	–	–	399,559	399,559
Trade receivables*	–	–	–	525,380	525,380
Receivables under service concession arrangements	2,233,650	–	–	–	2,233,650
Financial assets included in prepayments, deposits and other receivables – Normal#	76,143	–	–	–	76,143
Pledged deposits – Not yet past due	7,122	–	–	–	7,122
Cash and cash equivalents – Not yet past due	1,520,036	–	–	–	1,520,036
	3,836,951	–	–	924,939	4,761,890

* For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix of trade and bills receivables is disclosed in note 22(d) to the financial statements. The Group's exposure to credit risk of contract assets is not significant and the ECL is minimal.

The credit quality of the financial assets (other than contract assets) included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(d) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The Group has the following loans and borrowings as at the end of the reporting period:

	2021 **HK$'000**	2020 HK$'000
Bank loans	**955,620**	287,232
Other loans	**717,244**	764,810
Lease liabilities	**14,981**	31,820
	1,687,845	1,083,862
Analysed into:		
Bank loans repayable:		
Within one year	**109,743**	51,318
In the second year	**174,390**	69,175
In the third to fifth years, inclusive	**321,496**	160,040
Beyond five years	**349,991**	6,699
	955,620	287,232
Other borrowings repayable:		
Within one year	**115,188**	125,896
In the second year	**77,476**	74,874
In the third to fifth years, inclusive	**160,634**	180,717
Beyond five years	**378,927**	415,143
	732,225	796,630
Total loans and borrowings	**1,687,845**	1,083,862

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(d) Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities (other than receipts in advance and contract liabilities) as at 31 December 2021 and 2020, based on the contractual undiscounted payments, is as follows:

	On demand or within 1 year HK$'000	1 to 2 years HK$'000	3 to 5 years HK$'000	Beyond 5 years HK$'000	Total HK$'000
At 31 December 2021					
Bank and other borrowings	**222,371**	**259,471**	**583,771**	**961,954**	**2,027,567**
Trade payables	**737,054**	**–**	**–**	**–**	**737,054**
Lease liabilities	**6,301**	**6,752**	**–**	**–**	**13,053**
Other payables and accruals (excluding lease liabilities)	**3,977,171**	**–**	**–**	**–**	**3,977,171**
	4,942,897	**266,223**	**583,771**	**961,954**	**6,754,845**
At 31 December 2020					
Bank and other borrowings	168,921	146,438	401,013	567,260	1,283,632
Convertible bond	2,202,300	–	–	–	2,202,300
Trade payables	760,696	–	–	–	760,696
Lease liabilities	18,423	13,682	8,038	–	40,143
Other payables and accruals (excluding lease liabilities)	1,692,108	–	–	–	1,692,108
	4,842,448	160,120	409,051	567,260	5,978,879

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may issue new shares to increase share capital.

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 and convertible bond (as shown in the consolidated statement of financial position) less cash and cash equivalents. The gearing ratios as at 31 December 2021 and 2020 were as follows:

	2021 **HK$'000**	2020 HK$'000
Bank and other borrowings	**1,672,864**	1,052,042
Convertible bond	**–**	2,177,112
Due to the immediate holding company	**2,693,300**	491,000
Total debt	**4,366,164**	3,720,154
Less: Cash and cash equivalents	**(1,578,738)**	(1,520,036)
Net debt	**2,787,426**	2,200,118
Total equity	**3,995,279**	3,591,565
Gearing ratio	**69.8%**	61.3%

42. EVENT AFTER THE REPORTING PERIOD

Save as disclosed in note 34(c) to the financial statements regarding a loan arrangement entered into with the immediate holding company, the Group has no other significant event after the reporting period.

43. OTHER FINANCIAL INFORMATION

The net current liabilities and total assets less current liabilities of the Group as at 31 December 2021 amounted to HK$2,095,285,000 (2020: HK$2,147,086,000) and HK$5,852,611,000 (2020: HK$4,875,442,000), respectively.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company as at the end of the reporting period is as follows:

	2021 HK$'000	2020 HK$'000
ASSETS		
Non-current assets:		
Office equipment and motor vehicles	**210**	286
Investment property	**–**	48,571
Intangible assets	**49**	55
Investments in subsidiaries	**4,319,257**	4,318,599
Total non-current assets	**4,319,516**	4,367,511
Current assets:		
Prepayments, deposits and other receivables	**338,625**	328,264
Cash and bank balances	**92,753**	68,187
Total current assets	**431,378**	396,451
TOTAL ASSETS	**4,750,894**	4,763,962
EQUITY AND LIABILITIES		
Equity:		
Share capital	**2,227,564**	2,227,564
Equity component of convertible bond	**–**	147,029
Other reserves (note)	**(197,949)**	(307,298)
TOTAL EQUITY	**2,029,615**	2,067,295
Current liabilities:		
Other payables and accruals	**2,721,279**	519,555
Convertible bond	**–**	2,177,112
Total current liabilities	**2,721,279**	2,696,667
TOTAL LIABILITIES	**2,721,279**	2,696,667
TOTAL EQUITY AND LIABILITIES	**4,750,894**	4,763,962

KE JIAN
Director

CHEN XINGUO
Director

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2021

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(CONTINUED)*

Note:

A summary of the Company's other reserves is as follows:

	Share option reserve HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2020	20,789	12,059	(325,163)	(292,315)
Loss for the year and total comprehensive loss for the year	–	–	(14,983)	(14,983)
At 31 December 2020 and 1 January 2021	**20,789**	**12,059**	**(340,146)**	**(307,298)**
Loss for the year and total comprehensive loss for the year	**–**	**–**	**(37,680)**	**(37,680)**
Transfer of equity component of a convertible bond upon maturity	**–**	**–**	**147,029**	**147,029**
Transfer of share option reserve upon forfeiture and lapse of share options	**(20,789)**	**–**	**20,789**	**–**
At 31 December 2021	**–**	**12,059**	**(210,008)**	**(197,949)**

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2022.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and the annual report for the year ended 31 December 2020, is set out below:

	Year ended 31 December				
	2021	2020	2019	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**2,418,819**	1,790,611	1,384,113	1,270,141	1,088,865
Profit before tax	**268,576**	149,337	246,805	324,916	297,885
Income tax	**(22,959)**	6,048	(26,554)	(43,528)	(81,692)
Profit for the year	**245,617**	155,385	220,251	281,388	216,193
Attributable to:					
Shareholders of the Company	**264,051**	129,027	222,232	265,008	190,308
Non-controlling interests	**(18,434)**	26,358	(1,981)	16,380	25,885
	245,617	155,385	220,251	281,388	216,193

	As at 31 December				
	2021	2020	2019	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**10,920,534**	9,752,553	8,939,578	9,036,286	9,282,516
Total liabilities	**(6,925,255)**	(6,160,988)	(5,828,613)	(6,081,007)	(6,480,423)
Net assets	**3,995,279**	3,591,565	3,110,965	2,955,279	2,802,093
Equity attributable to:					
Shareholders of the Company	**3,580,541**	3,194,495	2,817,710	2,655,434	2,553,201
Non-controlling interests	**414,738**	397,070	293,255	299,845	248,892
	3,995,279	3,591,565	3,110,965	2,955,279	2,802,093