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***Notice to Hong Kong investors:** The Issuer and the Guarantor (as defined below) confirm that the Bonds (as defined below) are intended for purchase by professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) only and have been listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer and the Guarantor confirm that the Bonds are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.*

Talent Yield International Limited
(傑益國際有限公司)

(Incorporated in the British Virgin Islands with limited liability)

(the "Issuer")

U.S.$300,000,000 2.000 per cent. Guaranteed Bonds due 2026
(Stock Code: 40675)

U.S.$400,000,000 3.125 per cent. Guaranteed Bonds due 2031
(Stock Code: 40676)

unconditionally and irrevocably guaranteed by

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(the "Guarantor")

(Stock Code: 392)

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

Please refer to the offering circular of Talent Yield International Limited (傑益國際有限公司) (the "**Issuer**") and Beijing Enterprises Holdings Limited (北京控股有限公司) (the "**Guarantor**") dated 28 April 2021 (the "**Offering Circular**") appended herein in relation to the U.S.$300,000,000 2.000 per cent. guaranteed bonds due 2026 and U.S.$400,000,000 3.125 per cent. guaranteed bonds due 2031 (collectively, the "**Bonds**") issued by the Issuer and unconditionally and irrevocably guaranteed by the Guarantor. As disclosed in the Offering Circular, the Bonds are intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and have been listed on the Hong Kong Stock Exchange on that basis.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Circular must not be regarded as an inducement to subscribe for or purchase any securities of the Issuer, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Circular.

Hong Kong, 7 May 2021

As at the date of this announcement, the board of directors of the Guarantor comprises Mr. Li Yongcheng (Chairman), Mr. Jiang Xinhao (Vice Chairman), Mr. Zhao Xiaodong (Vice Chairman), Mr. Dai Xiaofeng, Mr. Xiong Bin (Chief Executive Officer) and Mr. Tam Chun Fai as executive directors; Mr. Wu Jiesi, Mr. Lam Hoi Ham, Dr. Sze Chi Ching and Dr. Yu Sun Say as independent non-executive directors.

As at the date of this announcement, the board of directors of the Issuer comprises Mr. Xiong Bin, Mr. Tam Chun Fai and Mr. Tung Woon Cheung, Eric.

IMPORTANT NOTICE

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular (the "**Offering Circular**") attached to this e-mail. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access. **You acknowledge that the access to the attached Offering Circular is intended for use by you only and you agree you will not forward or otherwise provide access to any other person.**

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

Confirmation of Your Representation: This Offering Circular is being sent to you at your request and by accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to represent to Bank of China (Hong Kong) Limited, DBS Bank Ltd., The Hongkong and Shanghai Banking Corporation Limited, Mizuho Securities Asia Limited and Standard Chartered Bank (together, the "**Joint Global Coordinators**"), CCB International Capital Limited, China CITIC Bank International Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, China International Capital Corporation Hong Kong Securities Limited, Crédit Agricole Corporate and Investment Bank and Industrial and Commercial Bank of China (Asia) Limited (together with the Joint Global Coordinators, the "**Joint Bookrunners**" and the "**Managers**") that (1) you and any customers you represent are not in the United States, (2) the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, (3) you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission, (4) to the extent you purchase the securities described herein, you will be doing so in an offshore transaction as defined in regulations under the Securities Act (as defined below) in compliance with Regulation S thereunder and (5) you acknowledge that you will make your own assessment regarding any credit, investment, legal, taxation or other economic considerations with respect to your decision to subscribe or purchase any of the described herein.

This document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of Talent Yield International Limited（傑益國際有限公司）(the "**Issuer**"), Beijing Enterprises Holdings Limited (the "**Guarantor**" or the "**Company**") or the Managers, nor their respective affiliates, directors, officers, employees, representatives, agents and each person who controls any of them nor any of their respective affiliates, accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version.

Restrictions: Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the Issuer, the Guarantor or the Managers to subscribe for or purchase any of the securities described therein. Any securities to be issued will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold in the United States unless registered under the Securities Act or pursuant to an exemption from such registration. Access has been limited so that it shall not constitute a general advertisement or solicitation in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Issuer in such jurisdiction.

You are reminded that you have accessed the attached Offering Circular on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

Actions that You May Not Take: You should not reply by e-mail to this communication, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

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STRICTLY CONFIDENTIAL

Talent Yield International Limited
（傑益國際有限公司）

(incorporated with limited liability in the British Virgin Islands)

U.S.$300,000,000 2.000 per cent. Guaranteed Bonds due 2026 (the "Series 1 Bonds")
U.S.$400,000,000 3.125 per cent. Guaranteed Bonds due 2031 (the "Series 2 Bonds")

unconditionally and irrevocably guaranteed by

Beijing Enterprises Holdings Limited

(incorporated with limited liability in Hong Kong)

Issue Price for the Series 1 Bonds: 99.495 per cent.

Issue Price for the Series 2 Bonds: 98.696 per cent.

The 2.000 per cent. guaranteed bonds due 2026 in the aggregate principal amount of U.S.$300,000,000 (the "**Series 1 Bonds**") and the 3.125 per cent. guaranteed bonds due 2031 in the aggregate principal amount of U.S.$400,000,000 (the "**Series 2 Bonds**", and together with the Series 1 Bonds, the "**Bonds**") will be issued by Talent Yield International Limited（傑益國際有限公司）(the "**Issuer**") and unconditionally and irrevocably guaranteed (the "**Guarantees**", and each, a "**Guarantee**") by Beijing Enterprises Holdings Limited (the "**Guarantor**" or the "**Company**").

The Series 1 Bonds will be constituted by a trust deed to be dated 6 May 2021 (the "**Series 1 Bonds Trust Deed**") made between the Issuer, the Guarantor and The Bank of New York Mellon, London Branch (the "**Trustee**"). The Series 1 Bonds will constitute direct, unconditional, unsubordinated and (subject to Condition 4(a)(*Negative Pledge*) of the Terms and Conditions of the Series 1 Bonds (the "**Terms and Conditions of the Series 1 Bonds**") unsecured obligations of the Issuer, and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer. The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Series 1 Bonds and the Series 1 Bonds Trust Deed and the obligations of the Guarantor under the relevant Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions of the Series 1 Bonds, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

The Series 2 Bonds will be constituted by a trust deed to be dated 6 May 2021 (the "**Series 2 Bonds Trust Deed**" and together with the Series 1 Bonds Trust Deed, the "**Trust Deeds**" and each a "**Trust Deed**") made between the Issuer, the Guarantor and the Trustee. The Series 2 Bonds will constitute direct, unconditional, unsubordinated and (subject to Condition 4(a)(*Negative Pledge*) of the Terms and Conditions of the Series 2 Bonds (the "**Terms and Conditions of the Series 2 Bonds**" and together with the Terms and Conditions of the Series 1 Bonds, the "**Terms and Conditions**") unsecured obligations of the Issuer, and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer. The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Series 2 Bonds and the Series 2 Bonds Trust Deed and the obligations of the Guarantor under the relevant Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions of the Series 2 Bonds, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

Following the Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates（國家發展改革委關於推進企業發行外債備案登記制管理改革的通知（發改外資[2015] 2044號））issued by the National Development and Reform Commission of the PRC (the "**NDRC**") which came into effect on 14 September 2015 ("**NDRC 2044 Circular**"), Beijing Enterprises Group Company Limited, the controlling entity of the Guarantor has obtained a certificate from the NDRC on 16 April 2021, pursuant to which the NDRC granted a foreign debt amount to Beijing Enterprises Group Company Limited (the "**NDRC Quota**"). The Issuer is authorised by Beijing Enterprises Group Company Limited to issue the Bonds within the NDRC Quota. The Guarantor undertakes to file or cause to be filed with the NDRC the requisite information and documents in respect of the issuance of the Bonds within the prescribed timeframe after the issue date of the Bonds and in accordance with NDRC 2044 Circular and any implementation rules, regulations, certificates, circulars or notices in connection therewith issued by the NDRC from time to time.

Interest on the Series 1 Bonds is payable semi-annually in arrear on 6 May and 6 November in each year, commencing on 6 November 2021. All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Series 1 Bonds shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or government charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, Hong Kong or the PRC or, in each case, any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law. See "*Terms and Conditions of the Series 1 Bonds – Taxation*" for more details. Interest on the Series 2 Bonds is payable semi-annually in arrear on 6 May and 6 November in each year, commencing on 6 November 2021. All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Series 2 Bonds shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or government charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, Hong Kong or the PRC or, in each case, any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law. See "*Terms and Conditions of the Series 2 Bonds – Taxation*" for more details.

Unless previously redeemed, or purchased and cancelled, the Series 1 Bonds will mature on 6 May 2026 (the "**Series 1 Bonds Maturity Date**") at their principal amount. Unless previously redeemed, or purchased and cancelled, the Series 2 Bonds will mature on 6 May 2031 (the "**Series 2 Bonds Maturity Date**") at their principal amount. The Series 1 Bonds may be redeemed at the option of the Issuer, in whole but not in part, on giving not less than 30 nor more than 60 days' notice to the holders of the Series 1 Bonds, at (a) the Make-Whole Price (as defined in the Terms and Conditions of the Series 1 Bonds) at any time before 6 April 2026 (being the date that falls one month prior to the Series 1 Bonds Maturity Date) or (b) their principal amount, at any time on or after 6 April 2026 (being the date that falls one month prior to the Series 1 Bonds Maturity Date. See "*Terms and Conditions of the Series 1 Bonds – Redemption and Purchase – Redemption at the Option of the Issuer*" for more details. The Series 2 Bonds may be redeemed at the option of the Issuer, in whole but not in part, on giving not less than 30 nor more than 60 days' notice to the holders of the Series 2 Bonds, at (a) the Make-Whole Price (as defined in the Terms and Conditions of the Series 1 Bonds) at any time before 6 February 2031 (being the date that falls three months prior to the Series 2 Bonds Maturity Date) or (b) their principal amount, at any time on or after 6 February 2031 (being the date that falls three months prior to the Series 2 Bonds Maturity Date. See "*Terms and Conditions of the Series 2 Bonds – Redemption and Purchase – Redemption at the Option of the Issuer*" for more details.

The Bonds are subject to redemption, in whole but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time on giving not less than 30 nor more than 60 days' notice in the event of certain changes affecting taxes of the British Virgin Islands, Hong Kong or the PRC. See "*Terms and Conditions of the Series 1 Bonds – Redemption and Purchase – Redemption for Tax Reasons*" and "*Terms and Conditions of the Series 2 Bonds – Redemption and Purchase – Redemption for Tax Reasons*" for more details. At any time following the occurrence of a Change of Control Triggering Event (as defined in (in case of the Series 1 Bonds) the Terms and Conditions of the Series 1 Bonds and (in case of the Series 2 Bonds) the Terms and Conditions of the Series 2 Bonds), the holder of a relevant Bond will have the right, at such holder's option, to require the Issuer to redeem all, or some only, of that holder's Bonds on the Change of Control Put Date (as defined in (in case of the Series 1 Bonds) the Terms and Conditions of the Series 1 Bonds and (in case of the Series 2 Bonds) the Terms and Conditions of the Series 2 Bonds) at 101 per cent. of their principal amount, together with accrued interest up to, but excluding, such Change of Control Put Date. See "*Terms and Conditions of the Series 1 Bonds – Redemption and Purchase – Redemption for Change of Control Triggering Event*" and "*Terms and Conditions of the Series 2 Bonds – Redemption and Purchase – Redemption for Change of Control Triggering Event*" for more details.

Investing in the Bonds involves certain risks. See "*Risk Factors*" beginning on page 13 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

The Bonds and the Guarantees have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States, unless pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act. The Bonds are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S of the Securities Act. For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see "*Subscription and Sale*".

Application will be made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange) ("**Professional Investors**") only. This Offering Circular is for distribution to Professional Investors only.

Notice to Hong Kong investors: The Issuer and the Guarantor confirm that the Bonds are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer and the Guarantor confirm that the Bonds are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this document. Listing of the Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Bonds, the Issuer, the Guarantor or quality of disclosure in this Offering Circular. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange for the purpose of giving information with regard to the Issuer and the Guarantor. Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this document and confirms, having made reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Each Series of the Bonds will be evidenced by a global certificate (each a "**Global Certificate**", and together, the "**Global Certificates**") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about 6 May 2021 (the "**Issue Date**") with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in each Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in each Global Certificate, individual certificates for Bonds will not be issued in exchange for interests in such Global Certificate.

The Bonds are expected to be rated "Baa1" by Moody's Investors Service Inc. ("**Moody's**") and "BBB+" by Standard & Poor Ratings Group ("**S&P**"). Such ratings do not constitute a recommendation to buy, sell or hold the Bonds and may be subject to revision or withdrawal at any time by either such rating organisation. Each such rating should be evaluated independently of any other rating of the Bonds, the Issuer's or the Guarantor's other securities or of the Issuer or the Guarantor.

The Bonds will be in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

Joint Global Coordinators and Joint Bookrunners

Bank of China (Hong Kong) **DBS Bank Ltd.** **HSBC**

Mizuho Securities **Standard Chartered Bank**

Joint Bookrunners

CCB International **China CITIC Bank International** **China Everbright Bank Hong Kong Branch**

China International Capital Corporation **Crédit Agricole CIB** **ICBC (Asia)**

Offering Circular dated 28 April 2021

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IMPORTANT NOTICE

You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this Offering Circular, you should obtain independent professional advice.

Each of the Issuer and the Guarantor, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor and their respective subsidiaries (collectively, the "**Group**"), the Bonds and the Guarantees, which is material in the context of the issue and offering of the Bonds (including all information required by applicable laws and which, according to the particular nature of the Issuer, the Guarantor, the Bonds and the Guarantees, is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and the Guarantor and of the rights attached to the Bonds and the Guarantees), (ii) the statements contained in it relating to the Issuer, the Guarantor and the Group are in every material respect true and accurate and not misleading, (iii) the opinions and intentions expressed in this document with regard to the Issuer, the Guarantor and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) there are no other facts in relation to the Issuer, the Guarantor, the Group, the Bonds or the Guarantees the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect, (v) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements, and (vi) the statistical, industry and market-related data and forward looking statements included in this Offering Circular (if any), are based on or derived from sources which the Issuer and the Guarantor believes to be accurate and reliable in all material respects. In addition, each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this Offering Circular.

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and Bank of China (Hong Kong) Limited, DBS Bank Ltd., The Hongkong and Shanghai Banking Corporation Limited, Mizuho Securities Asia Limited and Standard Chartered Bank (together, the "**Joint Global Coordinators**"), CCB International Capital Limited, China CITIC Bank International Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, China International Capital Corporation Hong Kong Securities Limited, Crédit Agricole Corporate and Investment Bank and Industrial and Commercial Bank of China (Asia) Limited (together with the Joint Global Coordinators, the "**Joint Bookrunners**" and the "**Managers**") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this document in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds or redemption of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the European Economic Area, the United Kingdom, the British Virgin Islands, Singapore, Hong Kong, Japan and the People's Republic of China, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "*Subscription and Sale*".

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Guarantor, the Group, the Bonds or the Guarantees other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Managers, the Trustee or the Agents (as defined in the Terms and Conditions) or any of their respective affiliates, employees, directors, advisers, officers, agents or representatives, or any person who controls any of them. Neither the delivery of this document nor any offer, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor, the Group or any of them since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Managers, the Trustee or the Agents or any of their respective affiliates, employees, directors, advisers, officers, agents or representatives, or any person who controls any of them to subscribe for or purchase any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular is being furnished by the Issuer and the Guarantor in connection with the offering of the Bonds exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider purchasing the Bonds. Investors must not use this Offering Circular for any other purpose, make copies of any part of this Offering Circular or give a copy of it to any other person, or disclose any information in this Offering Circular to any other person. The information contained in this Offering Circular has been provided by the Issuer, the Guarantor and other sources identified in this Offering Circular. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Bonds offered by this Offering Circular is prohibited. Each offeree of the Bonds, by accepting delivery of this Offering Circular, agrees to the foregoing.

Each potential investor must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Bonds or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required under any regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer, the Guarantor, the Managers, the Trustee or the Agents or any of their respective affiliates, employees, directors, advisers, officers, agents or representatives, or any person who controls any of them shall have any responsibility therefor.

None of the Managers, the Trustee or the Agents or any of their respective affiliates, employees, directors, advisers, officers, agents or representatives, or any person who controls any of them has separately or independently verified the information contained in this Offering Circular, no representation, warranty or undertaking, express or implied, is made or given and no responsibility or liability is accepted by the Managers, the Trustee or the Agents or any of their respective affiliates, employees, directors, advisers, officers, agents or representatives, or any person who controls any of them, as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the Bonds and the Guarantees and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Managers, the Trustee or the Agents or any of their respective affiliates, employees, directors, advisers, officers, agents or representatives, or any person who controls any of them. To the fullest extent permitted by law, none of the Managers, the Trustee or Agents or any of their respective affiliates, employees, directors, advisers, officers, agents or representatives, or any person who controls any of them accepts any responsibility for the contents of this Offering Circular or for any statement made or purported to be made by the Managers, Trustee or the Agents or any of their respective affiliates, employees, directors, advisers, officers, agents or representatives, or any person who controls any of them, or on their behalf in connection with the Issuer or the Guarantor or the issue and offering of the Bonds. Each of the Managers, the Trustee, the Agents and any of their respective affiliates, employees, directors, advisers, officers, agents or representatives, or any person who controls any of them accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Managers, the Trustee, the Agents or any of their respective affiliates, employees, directors, advisers, officers, agents or representatives, or any person who controls any of them undertakes to review the financial condition or affairs of the Issuer or the Guarantor during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor of the Bonds of any information coming to the attention of any of the Managers, the Guarantor, the Trustee, the Agents or any of their respective affiliates, employees, directors, advisers, officers, agents or representatives, or any person who controls any of them. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Guarantor, the Managers, the Trustee or the Agents or any of their respective affiliates, employees, directors, advisers, officers, agents or representatives or any person who controls any of them that any recipient of this Offering Circular should purchase the Bonds. Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

The Issuer, the Guarantor, the Managers, the Trustee, the Agents and any of their respective affiliates, employees, directors, advisers, officers, agents or representatives, and any person who controls any of them, are not making any representation to any purchaser of Bonds regarding the legality of any investment in the Bonds by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers, the Trustee or the Agents or any of their respective affiliates, employees, directors, advisers, officers, agents or representatives, or any person who controls any of them, in connection with its investigation of the accuracy of such information or its investment decision.

STABILISATION

In connection with the issue of the Bonds, any of the Managers acting in its capacity as stabilisation manager (the "**Stabilisation Manager**") (or persons acting on behalf of the Stabilisation Manager), provided that China CITIC Bank International Limited shall not be appointed and acting as the Stabilisation Manager, may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager (or persons acting on behalf of such Stabilisation Manager) will undertake a stabilisation action. Any stabilisation action may begin on or after the Issue Date and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Bonds. The Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) must conduct such stabilisation in accordance with all applicable laws and rules.

SINGAPORE SECURITIES AND FUTURES ACT PRODUCT CLASSIFICATION

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

PRIIPS REGULATION / PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**IDD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPS REGULATION / PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement IDD, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

INDUSTRY AND MARKET DATA

Market data and certain industry forecasts used throughout this Offering Circular have been obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Issuer, the Guarantor, the Managers, the Trustee or the Agents or any person who controls any of them, or any of their respective officers, employees, advisers or agents, or any affiliate of any such person, makes any representation as to the accuracy of that information.

CERTAIN DEFINITIONS AND CONVENTIONS

In this Offering Circular, unless otherwise specified or the context requires, references herein to "**PRC**" and "**China**", are to the People's Republic of China and do not include the Hong Kong Special Administrative Region of the PRC ("**Hong Kong**"), the Macau Special Administrative Region of the PRC ("**Macau**") or Taiwan. "**PRC government**" means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governments) and instrumentalities thereof, or, where the context requires, any of them. "**EEA**" means the European Economic Area and "**UK**" means the United Kingdom. All references to "**HK dollars**" or "**HK$**" are to the lawful currency of Hong Kong, references herein to "**U.S. dollars**" or "**U.S.$**" are to the lawful currency of the United States of America, references herein to "**Renminbi**" or "**RMB**" are to the lawful currency of the PRC, references herein to "**Euro**" or "**€**" are to the currency introduced at the start of third stage of the European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended and references to "**HKFRSs**" are to Hong Kong Financial Reporting Standards.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

This Offering Circular contains translations of certain HK dollars amounts into U.S. dollars at specified rates solely for the convenience of the readers. Unless otherwise specified in this Offering Circular, where financial information in relation to the Guarantor has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of HK$7.7534 to U.S.$1.00 (the noon buying rate in New York City on 31 December 2020 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System). Further information regarding exchange rate is set forth in Exchange Rate Information in this Offering Circular. No representation is made that the HK dollars amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at any particular rate or at all.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

The Issuer and the Guarantor have made forward-looking statements in this Offering Circular regarding, among other things, the Group's financial conditions, future expansion plans and business strategies. These forward-looking statements are based on the Group's current expectations about future events. Although the Issuer and the Guarantor believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things:

- risks associated with general political, social and economic conditions globally and in the PRC;
- risks associated with international global business activities and the industries in which the Group is involved;
- the Group's ability to manage working capital and operations-related expenditure requirements;
- the Group's ability to achieve its respective business strategies and plans of operation;
- the Group's ability to expand its respective customer base;
- foreign exchange controls and fluctuations in exchange rates and interest rates;
- certain government regulations, policies and other factors beyond the Group's control; and
- those other risks identified in the "*Risk Factors*" section of this Offering Circular.

The words "anticipate", "believe", "can", "could", "estimate", "expect", "intend", "may", "plan", "schedule", "will", "would", and similar words or expressions are intended to identify a number of these forward-looking statements. However, these words are not the exclusive means of identifying forward-looking statements. The Issuer and the Guarantor undertake no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur and the Group's actual results could differ materially from those anticipated in these forward-looking statements. Accordingly, you are strongly advised to exercise caution when using any forward-looking statement to evaluate the prospects of the Group.

This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results, performances and achievements of the Group to be materially different.

These forward-looking statements speak only as at the date of this Offering Circular. The Issuer and the Guarantor expressly disclaim any obligation or undertaking to release any updates or revisions to any of the opinions or forward-looking statements expressed in this Offering Circular as a result of any new information, future events or otherwise.

SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this Summary. Prospective investors should therefore read this Offering Circular in its entirety.

Overview

The Guarantor is a conglomerate backed by the Beijing Municipal Government, its major shareholder, which has focused on managing strategic infrastructure, public utilities and other investments since its listing on the Hong Kong Stock Exchange on 19 May 1997. The Guarantor's broad portfolio of businesses include natural gas distribution and transmission business, beer business, water and environmental business, and solid waste treatment business. The Guarantor maintains a leading market position in most of these segments, each of which generates a stable cash flow for the Guarantor, enabling it to manage volatility across various business segments and capture growth opportunities throughout the PRC. Leveraging its diverse business portfolio, the Guarantor seeks to achieve consistent financial performance and attract international investment to further develop municipal infrastructure and its other businesses in Beijing and throughout the PRC. The Guarantor is rated "Baa1" by Moody's and "BBB+" by S&P.

The Guarantor carries out its portfolio of businesses mainly through the following subsidiaries and associates:

- **Natural gas distribution and transmission business:** Beijing Gas, a wholly-owned subsidiary of the Guarantor, is the largest single-city gas supplier and service provider in the PRC in terms of volume of natural gas sourced annually, number of customers, length of pipeline network and annual sales for the year ended and as at 31 December 2020. Beijing Gas had a total of over 6.5 million piped gas subscribers in Beijing and approximately 25,100 kilometres of natural gas pipelines in operation as at 31 December 2020. With over five decades of fuel gas management experience and expertise, Beijing Gas's natural gas distribution network supplies natural gas to residential, industrial and power generation users in the Greater Beijing city area and other provinces and cities in the PRC. The Group expects that the PRC government's objective to reduce coal-fired power generation in the Greater Beijing city area will help maintain and expand the Guarantor's leading market position through coal-to-gas power plant conversions and increased promotion of natural gas as a cleaner alternative to other power generation fuels. In addition to Beijing Gas, the Group held a 23.7 per cent. interest in China Gas as at 31 December 2020. China Gas is a gas operator and service provider primarily engaged in the investment, construction and operation of city gas pipeline infrastructure facilities and transmission of natural gas and LPG business in China.

- **Beer business:** Yanjing Brewery is a subsidiary of the Guarantor in which the Guarantor had a 57.4 per cent. interest as at 31 December 2020. Yanjing Brewery operates one of the largest breweries in Asia and top ten breweries in the world based on sales volume as at 31 December 2020 with a diversified brand and product portfolio, a leading market position in Beijing and strong national reputation. Yanjing Brewery produces a wide variety of products designed to appeal to different consumer groups and covering different price points. Through its wide-reaching local production centres, it distributes beer and other beverage products to most parts of the PRC using a three-tier distribution network of distributors, wholesalers and retailers.

- **Water and environmental business:** BE Water is an associate of the Guarantor in which the Guarantor had a 41.1 per cent. interest as at 31 December 2020. BE Water is principally engaged in (i) water treatment services (comprising sewage and reclaimed water treatment services and water distribution services), (ii) construction services for water environmental renovation projects, and (iii) technical services and sale of machineries for water environmental renovation. Extensive PRC government policy directives intended to ensure a safe and reliable water distribution throughout the PRC have resulted in opportunities to bundle sewage and water treatment projects, thereby enabling BE Water to leverage its design, construction and operations expertise for provincial governments nationally. BE Water has developed an integrated business model with design and technical consultancy, construction, ownership and operational capabilities for sewage and water treatment projects. BE Water's extensive project capabilities enable it to capture the entire value chain from project concept and design stages through construction and operation.

- **Solid waste treatment business:** BE Environment and BEHET are subsidiaries of the Guarantor in which the Guarantor had a 50.4 per cent. interest and a 100.0 per cent. interest, respectively, as at 31 December 2020. BE Environment and BEHET are both primarily engaged in environmental protection and solid waste treatment business in China. EEW GmbH, a wholly-owned subsidiary of the Guarantor, is a leading energy-from-waste company in Europe headquartered in Germany with an approximately 28.0 per cent. market share in Germany as at 31 December 2020.

The Group recorded revenue of HK$67,764.8 million, HK$67,783.0 million and HK$68,407.4 million for the years ended 31 December 2018, 2019 and 2020, respectively. The Group had total assets of HK$174,496.3 million, HK$185,806.3 million and HK$204,804.4 million as at 31 December 2018, 2019 and 2020, respectively.

Competitive Strengths

The Guarantor believes its competitive strengths include:

- strong support from the Beijing Municipal Government;
- favourable market positions to benefit from supportive PRC government policies;
- a leading PRC gas utility service provider with a large-scale distribution network, integrated business model and effective monopoly position in Beijing;
- diversified business portfolio reducing business concentration risk;
- track record of steady growth with attractive and visible growth prospects;
- strong financial position with flexible sources of funding; and
- excellent management with a proven track record and deep industry expertise.

Business Strategy

The Guarantor's strategies include:

- leveraging natural gas experience and extensive network to exploit new markets and business opportunities;
- promoting natural gas as a cleaner alternative for residential, commercial and power generation uses;
- adjusting products mix, market and branding strategy of Yanjing Brewery;
- striving to derive synergistic benefits from investment in China Gas;
- re-designing the business model to accelerate expansion of sewage and water treatment projects of BE Water; and
- capturing the increasing market potential of the environmental protection industry in the PRC through BE Environment's engagement in solid waste treatment business.

Recent Developments

COVID-19 Outbreak

The outbreak of COVID-19 since early 2020 has led to instability and volatility in global markets. It has had and may continue to have adverse impacts on certain operations of the Group and its associates. The Group recorded a net profit of approximately HK$5,646.5 million for the year ended 31 December 2020, representing a decline by approximately 34.1 per cent. from the net profit of approximately HK$8,573.6 million for the year ended 31 December 2019. Such decline was partly caused by reduction in operating activities, consumption shrinkage and project delay amid the outbreak and spread of COVID-19 across the world, which in particular affected the Group's associates and led to a decrease in the share of profits of associates as recognised by the Guarantor. Given the uncertainties as to the development of the COVID-19 outbreak at the moment, it is difficult to predict how long the adverse impact of the pandemic will last and the extent to which the Group may be affected in the long run. For more details on COVID-19, see "*Risk Factors – The national and regional economies in the PRC and the Group's business operations, financial condition, results of operations and prospects may be adversely affected by any force majeure events, including occurrence of natural disasters, acts of God or outbreaks of contagious diseases or other epidemics (such as COVID-19).*"

THE OFFERING

The following summary contains some basic information about the Bonds and the Guarantees and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in the section entitled "Terms and Conditions of the Series 1 Bonds", "Terms and Conditions of the Series 2 Bonds" and "Summary of Provisions Relating to the Bonds in Global Form" shall have the same meanings in this summary. Unless otherwise specified in this summary, references to "Terms and Conditions" shall mean each of the "Terms and Conditions of the Series 1 Bonds" and "Terms and Conditions of the Series 2 Bonds". For a comprehensive description of the terms of the Bonds, see "Terms and Conditions of the Series 1 Bonds" and "Terms and Conditions of the Series 2 Bonds" in this Offering Circular.

Issuer	Talent Yield International Limited (傑益國際有限公司), a limited liability company incorporated in the British Virgin Islands.
Guarantor	Beijing Enterprises Holdings Limited, a limited liability company incorporated in Hong Kong.
Series 1 Bonds	U.S.$300,000,000 aggregate principal amount of 2.000 per cent. guaranteed bonds due 2026.
Series 2 Bonds	U.S.$400,000,000 aggregate principal amount of 3.125 per cent. guaranteed bonds due 2031.
Series 1 Bonds Issue Price	99.495 per cent.
Series 2 Bonds Issue Price	98.696 per cent.
Form and Denomination	The Bonds will be issued in registered form in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Interest	The Series 1 Bonds will bear interest on their outstanding principal amount from and including 6 May 2021 at the rate of 2.000 per cent. per annum, payable semi-annually in arrear on 6 May and 6 November in each year, commencing on 6 November 2021. The Series 2 Bonds will bear interest on their outstanding principal amount from and including 6 May 2021 at the rate of 3.125 per cent. per annum, payable semi-annually in arrear on 6 May and 6 November in each year, commencing on 6 November 2021.
Issue Date	6 May 2021.
Series 1 Bonds Maturity Date . . .	6 May 2026.
Series 2 Bonds Maturity Date . . .	6 May 2031.

Status of the Bonds	The Bonds will constitute direct, unsubordinated, unconditional and (subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions), unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions, at all times rank at least equally with all the Issuer's other present and future unsecured and unsubordinated obligations.
Status of the Guarantees	The Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deeds. The Guarantor's obligations in respect of the Bonds and the Trust Deeds (the "**Guarantees**") are contained in the Trust Deeds. The obligations of the Guarantor under the Guarantees shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.
Rating.	The Bonds are expected to be rated Baa1 by Moody's and BBB+ by S&P. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.
Covenants	The Bonds will contain certain covenants including a negative pledge provision as further described in Condition 4(a) (*Negative Pledge*), Condition 4(b) (*Other Covenants*), Condition 4(c) (*Financial Statements*) and Condition 4(d) (*Notification to NDRC*) of the Terms and Conditions.
Events of Default	Upon the occurrence and continuation of certain events as described in Condition 9 (*Events of Default*) of the Terms and Conditions, the Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (provided in any such case that the Trustee shall have been first indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest.

Taxation	All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantees shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, Hong Kong or the PRC or in each case, any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law, as further described in Condition 8 (*Taxation*) of the Terms and Conditions.
Final Redemption.	Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on (in the case of the Series 1 Bonds) the Series 1 Bonds Maturity Date and (in the case of the Series 2 Bonds) the Series 2 Bonds Maturity Date.
Redemption for Tax Reasons . . .	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time upon giving not less than 30 nor more than 60 days' notice to the holders of the Bonds and in writing to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), at their principal amount, together with any interest accrued up to but excluding the date fixed for redemption, if the Issuer (or, if the relevant Guarantee was called, the Guarantor) satisfies the Trustee immediately prior to the giving of such notice that (i) it has or will become obliged to pay Additional Tax Amounts (as defined in Condition 8 of the Terms and Conditions) as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or Hong Kong or the PRC or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 28 April 2021, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due, as further described in Condition 6(b) (*Redemption for Tax Reasons*) of the Terms and Conditions.
Redemption for Change of Control Triggering Event	At any time following the occurrence of a Change of Control Triggering Event, the holder of a Bond will have the right, at such holder's option, to require the Issuer to redeem all, or some only, of such holder's Bonds, on the Change of Control Put Date at 101 percent. of their principal amount, together with accrued interest up to, but excluding the Change of Control Put Date as further described in Condition 6(c) (*Redemption for Change of Control Triggering Event*) of the Terms and Conditions.

Redemption at the Option of the Issuer	In respect of the Series 1 Bonds: The Issuer may, at any time upon giving not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Bondholders and in writing to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), redeem the Bonds, in whole but not in part, at: (A) a Make-Whole Price, at any time before 6 April 2026 (being the date that falls one month prior to the Series 1 Bonds Maturity Date); or (B) their principal amount, at any time on or after 6 April 2026 (being the date that falls one month prior to the Series 1 Bonds Maturity Date), in each case, together with accrued and unpaid interest, if any, to but excluding, the redemption date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice, as further described in Condition 6(d) (*Redemption at the Option of the Issuer*) of the Terms and Conditions of the Series 1 Bonds. In respect of the Series 2 Bonds: The Issuer may, at any time upon giving not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Bondholders and in writing to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), redeem the Bonds, in whole but not in part, at: (A) a Make-Whole Price, at any time before 6 February 2031 (being the date that falls three months prior to the Series 2 Bonds Maturity Date); or (B) their principal amount, at any time on or after 6 February 2031 (being the date that falls three months prior to the Series 2 Bonds Maturity Date), in each case, together with accrued and unpaid interest, if any, to but excluding, the redemption date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice, as further described in Condition 6(d) (*Redemption at the Option of the Issuer*) of the Terms and Conditions of the Series 2 Bonds.
Legal Entity Identifier of the Issuer	2549002XKO8XBAXUDO24
Clearing Systems	Each Series of the Bonds will be evidenced by a Global Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with, a common depositary for, Euroclear and Clearstream. Beneficial interests in a Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in each Global Certificate, individual certificates for the Bonds will not be issued in exchange for beneficial interests in a Global Certificate.

Common Code and ISIN of the Series 1 Bonds	The Common Code and ISIN for the Series 1 Bonds are 233514217 and XS2335142175, respectively.
Common Code and ISIN of the Series 2 Bonds	The Common Code and ISIN for the Series 2 Bonds are 233514241 and XS2335142415, respectively.
Listing	Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only.
Governing Law	English law.
Jurisdiction	Courts of England.
Trustee	The Bank of New York Mellon, London Branch.
Principal Paying Agent.	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent . . .	The Bank of New York Mellon SA/NV, Dublin Branch.
Further Issues	The Issuer may from time to time without the consent of the Bondholders create and issue further bonds either having the same terms and conditions as each Series of the Bonds in all respects (or in all respects except for the first payment of interest on them and the timing for complying with the requirements set out in the Terms and Conditions of the Series 1 Bonds (in the case of the Series 1 Bonds) and the Terms and Conditions of the Series 2 Bonds (in the case of the Series 2 Bonds) in relation to the NDRC Post-issue Filing) and so that such further issue shall be consolidated and form a single series with the outstanding bonds of any series (including such series of the Bonds) or upon such terms as the Issuer may determine at the time of their issue, as further described in Condition 15 of the Terms and Conditions.
Use of Proceeds	See "*Use of Proceeds*".
Selling Restrictions	The Bonds and the Guarantees will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "*Subscription and Sale*".

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of the Guarantor as at and for the years indicated.

The summary consolidated financial information of the Guarantor as at and for the years ended 31 December 2018, 2019 and 2020 set forth below is derived from and are qualified in their entirety by reference to, and should be read in conjunction with the Guarantor's consolidated financial statements as at and for the years ended 31 December 2019 and 2020, including the related notes thereto, which have been audited by Ernst & Young (the "**Audited Consolidated Financial Statements**"). The Audited Consolidated Financial Statements are prepared in accordance with HKFRSs.

The audited consolidated financial statements of the Guarantor as at and for the year ended 31 December 2019 (the "**2019 Audited Consolidated Financial Statements**") were prepared in conjunction with the adoption of HKFRS 16 which took effect from 1 January 2019. Please refer to note 3.2 of the 2019 Audited Consolidated Financial Statements for a discussion on the impact of the adoption of HKFRS 16. As the Guarantor has applied the modified retrospective approach set out in HKFRS 16 with the date of initial application on 1 January 2019 and without restating the corresponding figures for the prior period before 1 January 2019, the Guarantor's consolidated financial information as at and for the year ended 31 December 2018 may not be directly comparable against the Guarantor's consolidated financial information after 1 January 2019, including the Guarantor's consolidated financial information as at and for the years ended 31 December 2019 and 31 December 2020. Investors must therefore exercise caution when making comparisons to any financial figures after 1 January 2019, including the audited consolidated financial statements as at and for the years ended 31 December 2019 and 31 December 2020 against the Guarantor's consolidated financial information prior to 1 January 2019 and when evaluating the Group's financial condition, results of operations and prospects.

Consolidated Statement of Profit or Loss

	For the year ended 31 December			
	2018	**2019**	**2020**	**2020**
	HK$'000 (audited)	**HK$'000 (audited)**	**HK$'000 (audited)**	**U.S.$'000 (unaudited)**
REVENUE	67,764,770	67,783,028	68,407,443	8,822,896
Cost of sales	(57,201,105)	(56,836,891)	(57,542,546)	(7,421,589)
Gross profit	10,563,665	10,946,137	10,864,897	1,401,307
Gains on deemed disposal of partial interests in associates	549,014	338,115	–	–
Other income and gains, net	1,364,969	1,387,500	1,811,336	233,618
Selling and distribution expenses	(2,237,692)	(2,066,966)	(2,028,737)	(261,658)
Administrative expenses	(4,784,957)	(4,846,395)	(4,723,212)	(609,179)
Other operating expenses, net	(1,041,535)	(978,673)	(2,247,954)	(289,931)
PROFIT FROM OPERATING ACTIVITIES	4,413,464	4,779,718	3,676,330	474,157
Finance costs	(1,977,744)	(2,194,968)	(1,998,037)	(257,698)
Share of profits and losses of:				
Joint ventures	(6,715)	28,810	16,565	2,136
Associates	6,666,446	6,982,418	4,958,399	639,513
PROFIT BEFORE TAX	9,095,451	9,595,978	6,653,257	858,108
Income tax	(1,158,810)	(1,022,369)	(1,006,794)	(129,852)
PROFIT FOR THE YEAR	7,936,641	8,573,609	5,646,463	728,256
ATTRIBUTABLE TO:				
Shareholders of the Guarantor	7,577,383	8,054,780	5,286,888	681,880
Non-controlling interests	359,258	518,829	359,575	46,376
	7,936,641	8,573,609	5,646,463	728,256
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE GUARANTOR				
Basic and diluted	HK$6.00	HK$6.38	HK$4.19	U.S.$0.54

Consolidated Statement of Financial Position

	As at 31 December			
	2018	2019	2020	2020
	HK$'000 (audited)	HK$'000 (audited)	HK$'000 (audited)	U.S.$'000 (unaudited)
ASSETS				
Non-current assets:				
Property, plant and equipment	51,717,563	51,898,919	55,910,968	7,211,155
Investment properties	1,147,395	1,131,346	1,189,696	153,442
Right-of-use assets	–	2,839,886	2,136,712	275,584
Prepaid land premiums	1,469,087	–	–	–
Goodwill	16,553,016	16,332,072	16,762,006	2,161,891
Operating concessions	2,981,150	3,783,828	4,248,848	547,998
Other intangible assets	3,272,196	3,373,759	3,394,102	437,757
Investments in joint ventures	358,475	327,691	392,516	50,625
Investments in associates	53,375,575	57,244,835	60,982,149	7,865,214
Equity investments at fair value through other comprehensive income	2,908,338	3,284,217	3,233,117	416,993
Receivables under service concession arrangements	1,807,792	2,380,255	2,966,895	382,657
Receivables under a finance lease	846,572	738,296	702,343	90,585
Prepayments, other receivables and other assets	1,538,539	937,969	1,889,176	243,658
Financial asset at fair value through profit or loss	2,301,452	2,265,249	2,400,086	309,553
Deferred tax assets	1,423,522	1,638,766	1,799,088	232,039
Total non-current assets	141,700,672	148,177,088	158,007,702	20,379,150
Current assets				
Prepaid land premiums	38,342	–	–	–
Inventories	5,138,624	5,189,188	5,143,960	663,446
Receivables under a finance lease	81,260	84,707	98,535	12,709
Receivables under service concession arrangements	123,605	97,552	110,388	14,237
Trade and bills receivables	5,216,897	6,029,450	6,770,865	873,278
Prepayments, other receivables and other assets	3,611,879	3,638,798	4,743,928	611,851
Other taxes recoverable	609,522	393,871	531,641	68,569
Financial assets at fair value through profit or loss	–	–	238,095	30,708
Restricted cash and pledged deposits	39,983	36,701	36,879	4,756
Cash and cash equivalents	17,935,496	22,158,921	29,122,428	3,756,085
Total current assets	32,795,608	37,629,188	46,796,719	6,035,638
TOTAL ASSETS	174,496,280	185,806,276	204,804,421	26,414,788

	As at 31 December			
	2018	2019	2020	2020
	HK$'000 (audited)	HK$'000 (audited)	HK$'000 (audited)	U.S.$'000 (unaudited)
EQUITY AND LIABILITIES				
Equity attributable to shareholders of the Guarantor				
Share capital	30,401,883	30,401,883	30,401,883	3,921,103
Reserves	39,270,734	44,879,756	54,495,223	7,028,558
	69,672,617	75,281,639	84,897,106	10,949,662
Non-controlling interests	11,342,755	11,733,188	12,528,616	1,615,887
TOTAL EQUITY	81,015,372	87,014,827	97,425,722	12,565,548
Non-current liabilities:				
Bank and other borrowings	26,958,501	25,765,222	21,770,556	2,807,872
Guaranteed bonds and notes	31,024,807	26,268,062	26,861,083	3,464,426
Lease liabilities	–	684,279	608,805	78,521
Defined benefit obligations	2,011,333	2,270,816	2,591,259	334,209
Provision for onerous contracts and major overhauls	341,974	355,576	410,290	52,917
Other non-current liabilities	1,708,842	1,823,219	1,954,380	252,068
Deferred tax liabilities	2,250,422	2,576,094	2,654,242	342,333
Total non-current liabilities	64,295,879	59,743,268	56,850,615	7,332,346
Current Liabilities:				
Trade and bills payables	4,504,712	4,508,343	4,700,433	606,242
Other payables, accruals, and contract liabilities	21,413,851	21,235,911	24,321,243	3,136,849
Provision for onerous contracts and major overhauls	50,944	49,525	53,723	6,929
Income tax payables	1,227,743	981,218	958,514	123,625
Other taxes payable	448,372	374,237	367,672	47,421
Guaranteed bonds and notes	–	4,373,180	4,611,320	594,748
Lease liabilities	–	164,738	117,114	15,105
Bank and other borrowings	1,539,407	7,361,029	15,398,065	1,985,976
Total current liabilities	29,185,029	39,048,181	50,528,084	6,516,894
TOTAL LIABILITIES	93,480,908	98,791,449	107,378,699	13,849,240
TOTAL EQUITY AND LIABILITIES	174,496,280	185,806,276	204,804,421	26,414,788

Other Financial Data

	As at and for the year ended 31 December			
	2018	2019	2020	2020
	(HK$'000, except ratio data)			(U.S.$'000)
EBITDA[(1)]	15,023,388	15,949,682	13,131,086	1,693,591
Net debt to EBITDA ratio[(2)]	2.8	2.6	3.0	3.0

Notes:

(1) *EBITDA represents earnings before interest, taxes, depreciation and amortisation. It is not a standard measure under HKFRSs. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. Further, EBITDA may not reflect all of the financial and operating results and the requirements of the Group. In evaluating EBITDA, the Guarantor believes that investors should consider, among other things, the components of EBITDA and the amount by which EBITDA exceeds capital expenditures and other charges. The Guarantor has included EBITDA because it believes that it is a useful supplement to the cash flow data as a measure of the Group's performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies.*

(2) *Net debt to EBITDA ratio is calculated by dividing net debt over EBITDA. Net debt represents total debt less cash and cash equivalents.*

Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including the risks and uncertainties described below. The business, financial condition, results of operations and prospects of the Issuer, the Guarantor or the Group could be materially adversely affected by any of these risks. Additional considerations and uncertainties not presently known to the Issuer or the Guarantor, or which the Issuer or the Guarantor currently deems immaterial, may also have an adverse effect on an investment in the Bonds.

Risks relating to the Group

The performance of the Group's businesses depends on future economic growth in the PRC or globally.

The growth of the Group's businesses depends significantly upon the continuation of economic development and growth in the PRC, which will increase demand for infrastructure and utilities-related services. There is no assurance that the economy will continue to grow at historical rate or at all, either in the PRC generally or in the particular areas in which the Group's operations and investments are located (particularly in Beijing). Any adverse economic development, in particular in China, as a result of a global economic slowdown on the US-China trade tension or any social unrest or the occurrence of epidemics or otherwise, could lead to a general decline in domestic consumption, fluctuation in crude oil price and a slowdown in international trade.

The ongoing trade dispute between the PRC and the United States and the increase in tariffs that the United States has imposed or plans to impose on Chinese imports have contributed to increased market volatility, weakened consumer confidence and diminished expectations for economic growth around the world. The outbreak of the coronavirus disease 2019 ("**COVID-19**") in early 2020 and its spread worldwide has introduced and is expected to continue to introduce more uncertainties and volatility in global markets, as it remains unknown when the ongoing situation will improve and whether any effective containment of the spread of the coronavirus can be achieved. In addition, to the extent COVID-19 adversely affects the Group's business, financial condition, results of operations and prospects, it may also have the effect of heightening many of the other risks described in this "*Risk Factors*" section, such as those relating to the Issuer's and Guarantor's need to receive payments from the Group or distributions from its subsidiaries to make payments on the Bonds or the Guarantees (as the case may be) and the Group's ability to comply with the restrictions and covenants contained in its debt agreements. Any adverse development of COVID-19 or further economic slowdown in the PRC or globally could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In the past, the PRC government has implemented administrative measures to restrain economic growth rates that were considered unsustainably high. In general, any form of government control or newly implemented laws and regulations, depending on the nature and extent of such changes and the Group's ability to make corresponding adjustments, may result in a material adverse effect on its business and operating results and its future expansion plans in the PRC. In particular, decisions taken by regulators concerning economic or business interests or goals that are inconsistent with the Group's interests could materially adversely affect the Group's business, financial condition, results of operations and prospects.

The PRC government (including the Beijing Municipal Government) has no obligation to pay any amount due under the Bonds and the Guarantees.

The PRC government (including the Beijing Municipal Government) is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Bonds in lieu of the Issuer or the Guarantees in lieu of the Guarantor. This position has been reinforced by the Circular of the Ministry of Finance on Issues relevant to the Regulation on the Financing Activities Conducted by Financial Institutions for Local Governments and State-owned Enterprises（財政部關於規範金融企業對地方政府和國有企業投融資行為有關問題的通知(財金[2018]23號)）(the "**MOF Circular**") promulgated on 28 March 2018 and took effect on the same day, and the Circular of the National Development and Reform Commission and the Ministry of Finance on Improvement of Market Regulatory Regime and Strict Prevention of Foreign Debt Risks and Local Government Indebtedness

Risks(國家發展改革委財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知(發改外資[2018]706號)) (the "**Joint Circular**") promulgated on 11 May 2018 and took effect on the same day.

According to the MOF Circular, (i) state-owned financial enterprises are prohibited from providing financing in any form for local governments and their departments directly or through local state-owned enterprises ("**SOEs**") and public institutions and other indirect channels or increasing loans provided to local government financing platform companies ("**LGFV**") in violation of regulations that include the new Budget Law of the PRC, which took effect on 29 December 2018, and Opinions of the State Council on Enhancing the Administration of Fiscal Debts of Local Governments(國務院關於加强地方政府性債務管理的意見)("**Circular 43**"), except in the case of purchasing local government debt; (ii) state-owned financial enterprises shall ensure that the capital raised for financing SOEs, LGFV or public-private partnership construction projects is lawfully sourced and that the financing satisfies all required capital ratios; (iii) state-owned financial enterprises when providing agency services to local SOEs are obliged to evaluate the financial capabilities of the entity seeking to raise capital and the source of the funds such as when a local SOE issues domestic or overseas notes. As for the sources of income from debt-issuing enterprises involved in the arrangement of financial funds, state-owned financial enterprises shall carry out due-diligence investigations and carefully verify that the arrangement complies with all applicable laws and regulations; and (iv) documents including offering circulars shall not disclose information that can implicitly or explicitly indicate the government's endorsement of the local SOE's capital-raising, such as local financial revenues and expenditures and government debt information, or conduct misleading publicity that implies an association with the government's credit. According to the Joint Circular, any enterprise that intends to issue medium and long-term debt outside of the PRC is prohibited from including public schools, public hospitals, public cultural facilities, parks, public squares, office buildings of government departments and public institutions, municipal roads, non-toll bridges, non-operating water conservancy facilities, not-charged pipe network facilities and other public interest assets in the enterprise assets. The Joint Circular also reaffirms the restrictions in the MOF Circular that offering circulars shall not disclose information that can implicitly or explicitly indicate the government's endorsement of the new debt or conduct misleading publicity that implies an association with the government's credit. These circulars do not, however, prohibit the PRC government from providing support (in various forms such as capital injection and subsidies, but excluding the injection of any kind of public assets and land reserves) to the Group during its ordinary course of business in compliance with PRC laws and regulations.

The PRC government as the ultimate shareholder of the Group only has limited liability in the form of its equity contribution in the Group. As such, the PRC government does not have any payment obligations under the Bonds or the Guarantees. The Bonds are solely to be repaid by the Issuer, and the Guarantor pursuant to the Guarantees, each as an obligor under the relevant transaction documents and as an independent legal person.

Government data included in this Offering Circular is solely for the purpose to indicating the level of economic development in the PRC where substantially all of the Group's business operations and investments are located. Such data should not be construed as representing that the Bondholders have any recourse to the PRC government for payments under the Bonds or the Guarantees.

In addition, any ownership or control by the Beijing Municipal Government or the PRC government in or over the Group does not necessarily correlate to, or provide any assurance to, the Issuer, the Guarantor or the Group's financial condition. If the Issuer or the Guarantor does not fulfil its obligations under the Bonds or the relevant transaction documents, the Bondholders will only have recourse against the Issuer or the Guarantor, but not the Beijing Municipal Government or the PRC government. Investors should base their investment decision on the financial condition of the Issuer, the Guarantor and the Group and any perceived credit risk associated with an investment in the Bonds based on the Group's own financial information reflected in its financial statements, its business prospects and the markets in which the Group operates.

The Group's net profit declined by approximately 34.1 per cent. from 2019 to 2020. The Group may not achieve the same level of profit as in the past years, or may experience a decline in profit again or incur loss in the future.

The Group recorded a net profit of approximately HK$8,573.6 million and HK$5,646.5 million for the year ended 31 December 2019 and 2020, respectively. The Group's net profit for the year ended 31 December 2020 declined by approximately 34.1 per cent. from the net profit for the year ended 31 December 2019 mainly due to (i) reduction in operating activities, consumption shrinkage and project delay amid the outbreak and spread of COVID-19 across the world, which in particular affected the Group's associates and led to a decrease in the share of profits of associates as recognised by the Guarantor; (ii) the one-off asset value adjustment for Beijing Gas Blue Sky following suspension in trading of shares of Beijing Gas Blue Sky since 18 January 2021; and (iii) the impairment on certain assets for solid waste treatment business resulting from the change in the national electricity tariff subsidy policy implemented in 2020. For more details on COVID-19, see "*Risk Factors – The national and regional economies in the PRC and the Group's business operations, financial condition, results of operations and prospects may be adversely affected by any force majeure events, including occurrence of natural disasters, acts of God or outbreaks of contagious diseases or other epidemics (such as COVID-19).*" The Group may not achieve the same level of profit as in the past years, or may experience a decline in profit again or incur loss in the future, which could have a material and adverse effect on the Group's business, results of operation, financial condition and prospects.

The Group's investment holding companies may encounter difficulties in realising strategic objectives.

The Guarantor is an investment holding company with diversified investment portfolios across non-complementary industries with subsidiaries, associate companies and joint ventures managing operations such as natural gas, water and environmental and solid waste treatment services and brewery operations. Although the management of the Guarantor has recently taken a more active approach in managing its core businesses, the Guarantor generally remains as a passive holding company. Each of the subsidiaries, associates and joint ventures of the Guarantor has its own management team which makes decisions in relation to operational objectives and profitability targets.

Any conflict in the management and execution of the operations of the Group will require significant attention from management. Further, the Guarantor's subsidiaries, associate companies and joint ventures may not be able to realise strategic objectives and other benefits within their respective industries. The diversion of management's attention and any difficulties associated with the integration of future acquisitions could materially adversely affect the Group's business, financial condition, results of operations and prospects.

The Group may be unsuccessful in completing future acquisitions and may face difficulties in the integration of acquired assets.

The Group assesses acquisition opportunities during the course of its business to expand its existing business and enhance its competitive advantages in the PRC and particularly, in Beijing and overseas. The Group may acquire infrastructure and utilities and other businesses in Beijing and other parts of the PRC and overseas to expand its business and enhance its competitive advantages. The Group's ability to grow by acquisition is dependent upon, and may be limited by, the availability of suitable acquisition opportunities, its ability to negotiate acceptable acquisition terms, and its assessment of the characteristics of potential acquisition targets.

In addition, the completion of acquisitions will be subject to regulatory approvals and a number of risks, including the Group's ability to fund such acquisitions and the uncertainty of the legal environment in the relevant jurisdiction relating to mergers and acquisitions.

Growth by acquisition involves inherent risks. These risks include potential undisclosed debt and liabilities pertaining to the acquired companies and difficulties in integrating the operations and personnel of acquired companies, diversion of management attention from the operation of existing businesses and potential loss of key personnel and customers of acquired companies. The Group may not be able to identify suitable acquisition opportunities, complete such acquisitions on satisfactory terms or, if any acquisitions are consummated, satisfactorily integrate the acquired business, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Many of the Group's properties are subject to usage for special purposes and restrictions on transfer and sub-lease and some of the PRC subsidiaries of the Group do not possess valid land use rights or building ownership certificates to certain properties.

A substantial portion of the land that the Group uses for its business, particularly properties related to the natural gas distribution and transmission business, are used pursuant to land use arrangements entered into with the local or provincial PRC government. Pursuant to such arrangements, the Group obtained the land use rights through allocation or authorisation from the local government without paying a land premium to the land authorities. Such arrangements are not formalised in all cases, and limit the Group's usage of the property to the specific purpose for which the original use has been granted. Under PRC laws and regulations, approvals from, and payment of land premium to, the relevant land authorities are necessary for any transfer, lease, sale and disposal of such allocated or authorised land or the buildings attached thereto.

In addition, according to the concession agreements in respect of the Group's waste-to-energy ("**WTE**") projects with the local governments, the land use rights owned by the Group's project companies which operate the WTE projects are not allowed to be transferred, mortgaged or leased during the period of the concession rights. With respect to the Group's projects built on a build-operate-transfer ("**BOT**") basis, the land use rights and other assets shall be returned to the local governments upon the expiry of the concession rights. Moreover, pursuant to certain lease agreements between the Group's PRC subsidiaries and relevant lessors, certain project companies are not allowed to sub-lease the land without lessor's consent. In the event of any unauthorised sub-lease, the relevant lease agreements may be terminated by the lessors and the Group's PRC subsidiaries may be liable for damages incurred therefrom.

Moreover, some of the PRC subsidiaries of the Group do not possess valid land use rights certificates or building ownership certificates to certain properties that they occupy or use. Some of these PRC subsidiaries are in the process of applying for or will apply for the relevant certificates and permits. There can be no assurance that such certificates and permits will be obtained in a timely manner, or at all, and any delay may result in a disruption to their business operations. Under PRC laws and regulations, the PRC government may issue a warning, impose a penalty or reclaim the relevant land or properties for failure to obtain land use rights certificates or building ownership certificates. If any of these occurs, it may adversely affect the Group's business, financial condition, results of operations and prospects.

No assurance can be given that the relevant PRC government will continue to allow the Group to use the land and properties allocated to the Group to the same extent as currently used or at all. In addition, restrictions on transfer or sub-lease of such land and properties may have a material adverse impact on the liquidity of the Group's assets.

The Group is subject to extensive governmental approvals and compliance requirements for the construction and development of the facilities and in relation to the land and buildings that it owns or uses for its operations, and some of such properties are not in full compliance with applicable laws and regulations in the PRC.

For facilities constructed and developed for the Group's operations, the Group is required to obtain various permits, certificates and approvals from relevant authorities, including but not limited to land use rights certificates, planning permits, construction permits, certificates evidencing the passing of environmental impact assessment, environmental protection acceptance check, fire control design assessment, fire control acceptance check, inspection upon completion of construction, as well as building ownership certificates.

As at the date of this Offering Circular, the Group has not obtained all requisite permits, certificates and approvals for the construction and development of its facilities. For example, with respect to Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Plant Project, the facilities and buildings used for the project have not passed the acceptance inspection which should be done before commencement of operation. While no enforcement action has been taken by authority yet, the Group's project company may be required to suspend the facilities from operation pending completion of acceptance inspection, or discontinue its operation in the event that the project fails to pass the acceptance inspection. In addition, one of our subsidiaries engaged in beer business constructed a workshop without obtaining the construction planning permits and therefore was imposed a fine of approximately RMB1.0 million by local government in March 2021. The workshop may be ordered to be demolished if the subsidiary fails to obtain construction planning permits within the prescribed timeline afterwards.

In the event that the Group loses the right to use or control any of its important properties as a result of such non-compliance, the Group's operations may be significantly interrupted. The Group may also incur additional costs in relocating its facilities and operations. The occurrence or continuance of any such events could increase costs associated with the Group's operations and reduce its profitability, which may in turn have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group's joint venture partners' interests may conflict with its interests.

The Group's joint venture partners may:

- have economic or business interests or goals that are inconsistent with those of the Group;
- be unable or unwilling to fulfil their obligations under the relevant joint venture agreements;
- have financial difficulties; or
- have disputes with the Group.

A serious dispute with the Group's joint venture partners or the early termination of the Group's arrangements or agreements with them could materially adversely affect the Group's business, financial condition, results of operations and prospects.

The Group relies on external contractors for various services, including building and pipeline construction. The Group's business, financial condition and results of operations may be materially adversely affected if such external contractors breach their contractual obligations.

The Group engages external contractors for various services, including building and pipeline construction. The Group selects external contractors through competitive bids and also through its assessment of their capabilities and their reputation for quality and price. Completion of the Group's projects is subject to the performance of these external contractors of their obligations under contracts entered with the Group, including the pre-agreed schedule for completion, and no assurance can be given that the services rendered by any of these external contractors will always be satisfactory or match the Group's requirements for quality. If the performance of any external contractor is unsatisfactory, or if it is in breach of its contractual obligations, the Group may need to replace such contractor or take other actions to remedy the situation, which could materially adversely affect the cost and progress of its projects. The Group may incur additional costs due to a contractor's financial or other difficulties. Any of these factors may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's expansion into overseas markets will be affected by economic conditions and political and other risks in such countries where it operates.

In March 2016, the Guarantor successfully acquired 100.0 per cent. equity interest of EEW Energy from Waste GmbH ("**EEW GmbH**"), the largest waste incineration power enterprise in Germany. In June 2017, Beijing Gas Group Company Limited ("**Beijing Gas**"), a wholly-owned subsidiary of the Guarantor acquired approximately 20.0 per cent. of the share capital of Verkhnechonskneftegaz ("**VCNG**"), a subsidiary of Rosneft Oil Company ("**Rosneft**") which is principally engaged in exploring, appraising, developing, producing and marketing oil, gas and condensate field in Russia. The Group will selectively pursue suitable opportunities in overseas markets from time to time and strategically expand its overseas business. Such overseas business may be affected by the changes in, and the instability of, international economic and political conditions as well as the regional conditions of the jurisdictions where it operates. The political and economic conditions in such regions are often subject to instability. As a result of the Group's overseas operation, it is exposed to the risks associated with expanding and conducting business in foreign countries and regions, including but not limited to:

- political and legal risks, including civil unrest, acts of terrorism, war, coups, civil war, local or global political or military tensions, diplomatic relations tensions or changes, confiscation or nationalisation of the Group's assets or the imposition of restrictions, penalties or other sanctions in relation to any dealings in certain high risk regions;

- changes in foreign currency controls and foreign exchange policy;

- fluctuations in the economy and financial markets, as well as credit risk;

- changes in foreign government regulations or policies and the lack of a well-developed or independent legal system in foreign countries, which may create difficulties for the Group to enforce its contractual rights;

- dependence on foreign governments or entities controlled by such foreign governments for utility or infrastructure;

- possible unfavourable labour conditions or employee strikes;

- inadequate understanding of local operating and market conditions, lack of understanding of local taxation (including any adverse tax policies), customs, preferential treatment, corrupt business practices and other laws, regulations, standards and other requirements;

- risks of increased costs, prolonged construction periods, and contradictions with anticipated targets caused by violation of laws and regulations of the host country or improper handling of the legal issues in the host country;

- anti-PRC sentiments or protectionism, anti-dumping and others measures against PRC companies; and

- the cyclical nature and the demand of local market, and competition from other international and local companies.

In addition, the Group may need to allocate management resources and employees to high risk regions where its overseas projects are situated. The Group may purchase insurance and adopt other measures to protect employees and assets that may incur significant expenses. However, the sufficiency and effectiveness of such measures cannot be assured. The Group's exposure to such risks varies depending on the projects and the specific stage of each project. In addition, due to lack of managerial experience or resources in the new markets, the Group may need to rely on local management team and their expertise. Any loss of the services of key personnel and failure to recruit and retain a sufficient number of experienced personnel could materially adversely affect operation of the Group in these new markets. The above scenarios may therefore disrupt the Group's projects, result in a loss of staff and assets and may materially adversely affect its overseas expansion, general financial position and profitability.

The Group may be subject to penalties if it conducts transactions in violation of the relevant sanctions and export control regulations, which could materially adversely affect a holder's investment in the Bonds, and doing business with or investing in a sanctioned party or in Russia may also raise funding difficulties for the Group.

Certain countries or organisations, including the US, the European Union ("**EU**") and the United Nations maintain comprehensive sanctions regimes. For example, VCNG, in which the Group maintains a 20.0 per cent. equity interest, is subject to US sectoral sanctions imposed by the US Department of the Treasury's Office of Foreign Assets Control ("**US Sectoral Sanctions**"). US Sectoral Sanctions generally prohibit US Persons (i.e., entities organised under the laws of a US jurisdiction, US citizens, US permanent residents, and entities and individuals otherwise in the United States) from engaging in transactions with VCNG that involve (i) new debt with a maturity of over 60 days (including extensions of credit with that maturity); or (ii) certain oil exploration projects in the Arctic offshore, deepwater, or shale projects with potential for oil production. In addition to the sanctions applicable to US Persons, non-US Persons may be subject to sanctions for facilitating certain kinds of transactions with the targets of Sectoral Sanctions such as VCNG and Rosneft, holding company of VCNG. In addition, VCNG is designated as an Entity List entity by the US Department of Commerce, Bureau of Industry and Security and is accordingly the subject of certain restrictions on goods, software or technology of US origin, or containing more than certain levels of US content, for exploration or development of oil or gas in Russian deepwater, Arctic offshore or shale formations in Russia. The interpretation or implementation of government policy at the US federal, state or local levels with respect to US sanctions is difficult to predict.

In addition, Rosneft is subject to EU restrictions on access to capital imposed through Council Regulation (EU) No. 833/2014 of 31 July 2014. These restrictions extend to: (i) any entity outside the EU in respect of which Rosneft directly or indirectly owns more than 50 per cent. of the proprietary rights; and (ii) to any entity inside or outside the EU which acts on behalf or at the direction of Rosneft (or any entity referred to in point (i) of this paragraph). As a subsidiary of Rosneft that is located outside the EU and in which Rosneft holds more than 50.0 per cent. of its proprietary rights, the EU restrictions on access to capital extend to VCNG. As a result, there are prohibitions on (i) directly or indirectly purchasing, selling, providing investment services for, providing assistance in the issuance of or otherwise dealing with any transferable securities or money-market instruments issued by Rosneft or VCNG after 12 September 2014 with a maturity exceeding 30 days; and (ii) directly or indirectly making or being part of an arrangement to grant Rosneft or VCNG new loans or credits after 12 September 2014 with a maturity exceeding 30 days. To the extent that VCNG holds a licence to develop the Verkhnechonsk oil, gas and condensate field, the EU restrictions or prohibitions on sale, supply transfer or export of goods listed in Annex II of Regulation 833/2014 (as well as technical assistance, brokering services, financing or financial assistance in relation thereto) to natural or legal persons in Russia or if such items are for use in Russia (being "goods which are suitable for certain categories of oil exploration or production") and on provision of associated services necessary for these categories of oil exploration and production projects in Russia may be of relevance from an EU sanctions and export control perspective.

During the years ended 31 December 2018, 2019 and 2020, the Guarantor shared an operating profit (after tax) of HK$1.4 billion, HK$1.2 billion and HK$0.7 billion, respectively, through its equity interest in VCNG. VCNG contributes to the assets, revenues and net profit of the Group and may cause some potential investors to decide not to invest in the Bonds, because of applicable sanctions or the political uncertainty associated with Russia or the business risks of Rosneft and/or VCNG. Furthermore, there is no assurance that the Group can always comply with applicable sanctions. Any investigations of or penalties on the Group by reason of its investment in VCNG may materially adversely affect the Group's business, financial condition, results of operations and prospects. Such developments may also result in negative media or investor attention, which may distract management, affect investors' perception of the Group and ultimately have an adverse effect on the investment in the Bonds.

Increasing competition may materially adversely affect the Group's profitability.

The Group faces competition from international and local companies (including other state-owned companies) with respect to location, facilities and supporting infrastructure, services and pricing. The Group competes with local and international companies in capturing new business opportunities in the PRC. A number of the Group's competitors have greater financial and capital resources, marketing capabilities and/or brand recognition than the Group. In addition, some local companies have extensive knowledge and business relationships and a longer operational track record in the relevant local markets than the Group whereas international companies are able to capitalise on their overseas experience.

No assurance can be given that the Group will be able to compete successfully against its existing or potential competitors or that increased competition with respect to its activities will not have a material adverse effect on its financial condition and results of operations. If the Group cannot respond to changes in market conditions or changes in customer preferences as effectively as its competitors, its business, financial condition, results of operations and prospects could be materially adversely affected.

Any increase in interest rates may have an adverse effect on the Group's financial performance.

The Group has a substantial amount of bank borrowings and some of its bank loans have floating interest rates linked to, among others, one to three years benchmark rates of the People's Bank of China ("**PBOC**"), Hong Kong Interbank Offered Rate and the Euro Interbank Offered Rate. If there is a material increase in the reference rates during the term of the Group's relevant loan facilities or when its current loan facilities become due, the Group's finance costs may increase substantially and its business, financial condition, results of operations and prospects may be materially adversely affected.

The Group's infrastructure and utilities businesses are reliant on concession agreements, licences, franchises and key contracts.

The Group operates and manages its natural gas, water and environmental and solid waste treatment projects in the PRC under concession agreements, licences, franchises and key contracts. The Group must comply with the restrictions and conditions imposed in the concession agreements, licences, franchises and key contracts to maintain its operative rights, including, among others, no sale, assignment, transfer or lease of its essential assets and concession rights or placing of encumbrances thereon without prior permission from the grantor of the concession rights and no change of shareholding structure or ultimate controlling shareholder of the Group's project companies. Furthermore, such projects are subject to regulatory controls. Cancellation, revocation or termination of any such concession agreements, licences, franchises or key contracts, or imposition of restrictive regulatory controls, due to non-compliance of the Group with the restrictions and conditions stipulated therein or otherwise, may have a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

The adoption of HKFRS 16 with effect from 1 January 2019 renders the Guarantor's consolidated financial information as at and for the year ended 31 December 2018 or any date before not directly comparable with the Guarantor's consolidated financial information after 1 January 2019.

With effect from 1 January 2019, the Guarantor adopted HKFRS 16 where the Guarantor is required to reclassify and adjust certain of its financial line items in its financial statements. Please refer to note 3.2 of the 2019 Audited Consolidated Financial Statements for a discussion on the impact of the adoption of HKFRS 16. As the Guarantor has applied the modified retrospective approach set out in HKFRS 16 with the date of initial application of 1 January 2019 and without requiring any restatement of the corresponding figures of the prior period before 1 January 2019, the Guarantor's consolidated financial information as at and for the year ended 31 December 2018 or any date before may not be directly comparable against the Guarantor's consolidated financial information after 1 January 2019, including the consolidated financial information of the Guarantor as at and for the years ended 31 December 2019 and 31 December 2020, respectively. Investors must therefore exercise caution when making comparisons to any financial figures after 1 January 2019, including the audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2019 and 31 December 2020, respectively, against the Guarantor's consolidated financial information prior to 1 January 2019 and when evaluating the Group's financial condition, results of operations and prospects.

The Group's business operations are subject to risks, some of which may not be fully covered by insurance, such as those relating to equipment and systems failure, accidents, interruptions, epidemics and terrorism and no assurance can be given by the Group that significant costs and liabilities will not be incurred.

The Group's business, operation and facilities are subject to many operational and technical risks, including the breakdown or failure of equipment, information systems and processes; the performance of equipment below capacity (whether due to misuse, unexpected degradation, design flaws or construction or manufacturing defects); short supply of spare parts; operator errors and labour disputes.

In addition, a natural disaster or other similar events could result in personal injury, property damage and environmental damage, which could curtail the Group's operations and materially adversely affect its cash flows and, accordingly, materially adversely affect the Group's ability to service its debt. Substantially all of the Group's gas-related operations are exposed to potential natural disasters, including but not limited to typhoons, storms, floods and earthquakes. If one or more facilities that the Group owns or operates is damaged by severe weather or any other disaster, accident, catastrophe or other event, the Group's operations may be significantly interrupted. Similar interruptions could result from damage to production or other facilities or other stoppages arising from factors beyond the Group's control. The occurrence or continuance of any such events could increase costs associated with the Group's operations and reduce its profitability, which may in turn have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group may not be fully insured against all risks inherent to its business. In addition, there are certain types of losses (such as those arising from wars, acts of terrorism, acts of God or outbreaks of health epidemics and contagious diseases) that are generally not insured against because they are either uninsurable or not economically insurable. For example, the Group is not insured against any losses resulting from COVID-19 or any pandemic. If a significant accident or event occurs against which the Group is not insured or not fully insured, the Group's financial condition and results of operations may be materially adversely affected. In addition, the Group may not always be able to obtain insurance of the type and amount the Group desires at reasonable rates. Over time, premiums and deductibles for insurance policies may increase substantially, and certain insurance policies could become unavailable or available only for reduced amounts of coverage. If the Group incurs significant liability for which the Group is not insured or not fully insured, such liability could have a material adverse effect on its business, financial condition, results of operations and prospects. In addition, any claims made under any insurance policies maintained by the Group may not be paid in a timely manner, or at all, and may be insufficient if such an event were to occur.

If the Group breaches or is otherwise unable to comply with the restrictions and covenants in its debt agreements, there could be a default under the terms of these agreements, which could cause the repayment of some or all of the Group's debt to be accelerated.

If the Group breaches or is otherwise unable to comply with its current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Group, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of the Group's debt agreements contain cross-acceleration or cross-default provisions. As a result, the Group's default under one debt agreement may result in a default under the Group's other debt agreements and cause the acceleration of repayment of not only such debt but also other debt of the Group, including the Bonds.

If any of these events occur, there is no assurance that the Group's assets and cash flows would be sufficient to repay in full all of its indebtedness, or that the Group would be able to find alternative financing. Even if the Group could obtain alternative financing, there is no assurance that it would be on terms that are favourable or acceptable to the Group.

The Group may be involved from time to time in material disputes, administrative, legal and other proceedings arising out of its operations and may face significant liabilities or damage to its reputation as a result.

The Group may be involved from time to time in material disputes with various parties involved in its operation, including contractors, suppliers, partners and purchasers. These disputes may lead to protests, legal or other proceedings and may result in damage to the Group's reputation, substantial costs and diversion of resources and management's attention, which may have a material adverse effect on the Group's business, financial condition and results of operations or have a negative impact on the Group's reputation.

In addition, the Group may have disagreements with regulatory bodies or encounter with additional compliance issues in the course of its operations, which may subject the Group to administrative proceedings and unfavourable decrees which may lead it to administrative proceedings and unfavourable results. In the past, the Group has been subject to fine or reprimand imposed by regulatory bodies for violating PRC laws and regulations regarding to, for example, pricing of natural gas, fire control and work safety. There can be no assurance that any future failure by the Group to comply with applicable laws or regulations would not result in more serious penalties, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Non-compliance with environmental regulations, including those to be implemented in the future, may result in material adverse effects on the Group's business, financial condition, results of operations and prospects.

A variety of general and industry-specific PRC environmental laws and regulations apply to the Group's operations such as damage caused by air emissions, noise, waste water discharges, waste pollution and solid and hazardous waste handling and disposal. Costs and liabilities relating to compliance with applicable environmental laws and regulations are an inherent part of the Group's business operations. These laws can impose liability for non-compliance or clean up liability on the generation of hazardous waste and other substances from the Group's business operations that are disposed of either on or off-site, regardless of fault or the legality of the disposal activities. The Group may also be required to investigate and remedy contamination at its properties or where the Group conducts operations, including contamination that was caused in whole or in part by previous owners of properties.

The regulations for the adoption and issuance of wastes and pollutants discharge permit used to vary among different provinces. According to the Implementation Scheme for the Permits System of Controlling Emission of Pollutant (《控制污染物排放許可制實施方案》), which was promulgated by the General Office of the State Council on 11 November 2016 to implement the pollutants discharge permit system on a national basis, all stationary sources of pollution are required to be licensed by 2020.

The PRC Ministry of Environmental Protection (which was superseded by Ministry of Ecology and Environment of PRC in April 2018, the "**MEE**") issued the Catalogue for Classified Administration for Pollutant Discharge Licensing regarding Stationary Pollution Sources (《固定污染源排污許可分類管理名錄》) on 28 July 2017, which was later updated on 20 December 2019. Most of the Group's businesses, such as brewery production, water environment and solid waste treatment, are listed in this catalogue and therefore subject to pollutant discharge licensing requirement.

In January 2018, MEE issued the Administrative Measure for Pollutants Discharge Permits (for Trial Implementation) (《排污許可管理辦法(試行)》), which was amended in August 2019, according to which, MEE would release more detailed guidance on the implementation of pollutants discharge licensing system, specifying the scope of the system and procedure of application. This measure also highlights the responsibilities of pollutant emitters including the need to conduct regular monitoring and disclose information. If a pollutant emitter discharges pollutants without obtaining a permit, the competent environmental authority may order the pollutant emitter to rectify, impose a fine ranging from RMB100,000 to RMB1,000,000, or suspend or shut down the operation of the pollutant emitter with the approval of the relevant government.

On 24 January 2021, the State Council issued Regulation on the Administration of Permitting of Pollutant Discharges (《排污許可管理條例》), which was implemented on 1 March 2021. This regulation regulates the application, examination and approval procedures for pollutant discharge licensing, strengthens the development of information platform, promotes the full implementation of the pollutant discharge licensing system, puts in place the main responsibilities of pollutant discharging entities, strengthens the interim and ex post regulation of pollutant discharge licensing, and increases the penalty imposed on violations of pollutant discharge regulations. Where a pollutant discharging entity discharges pollutants without a pollutant discharge license, the competent department of ecology and environment shall order it to make corrections, restrict production or suspend production for rectification, and impose a fine of not less than RMB200,000 but not more than RMB1,000,000. If the situation is serious, the competent department of ecology and environment shall, upon approval of the government with approval authority, order it to suspend business or close down.

In January 2015, the PRC Ministry of Housing and Urban-Rural Development issued Administrative Measures for Permission of Urban Sewage Discharged into Drainage Network (《城鎮污水排入排水管網許可管理辦法》), according to which, enterprises shall obtain drainage permits to discharge sewage into urban drainage network, failing which a fine of up to RMB500,000 may be imposed by the local government.

As at the date of this Offering Circular, certain subsidiaries of the Guarantor have not obtained a pollutant discharge permit or a drainage permit or are in the process of obtaining such permits. No assurance can be given that they will successfully obtain the pollutant discharge permits or the drainage permits within the prescribed time limit or at all. The local competent environmental authority may order any entity operating without a pollutant discharge permit or a drainage permit to rectify, impose a fine against it, suspend or shut down its operation, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition to potential clean-up liability, the Group may become subject to monetary fines and penalties for violation of applicable environmental laws, regulations or administrative orders. Such non-compliance may result in closure or temporary suspension or imposition of restrictions on the Group's operations. The Group may be involved in legal proceedings from time to time which may require it to pay fines, comply with more rigorous standards or incur substantial capital or operating expenses for environmental compliance. Third parties may sue the Group for damages and costs resulting from environmental contamination from its properties and/or production facilities.

Moreover, environmental laws and regulations are becoming increasingly stringent and may in the future impose onerous obligations on the Group or significant penalties for non-compliance. While the Group intends to comply with applicable environmental legislation and regulatory requirements, it is possible that such compliance may materially restrict the operations of its business or result in significant costs for the Group.

No assurance can be given that changes in laws or regulations, including environmental laws and regulations, will not result in the Group having to incur substantial capital expenditure to upgrade or supplement its existing facilities or becoming subject to any fines or penalties. If the Group was to incur significant fines or penalties or become involved in protracted litigation, or if any of its facilities are closed or are required to temporarily suspend operations or upgrade to comply with the applicable laws and regulations, the Group's business, financial condition, results of operations and prospects may be materially adversely affected.

Risks relating to the Group's Natural Gas Distribution and Transmission Business

The Group enjoys an effective monopoly over natural gas distribution in Beijing pursuant to its concession rights, which may not be renewed.

According to notices from the Beijing Municipal Government dated 16 August 2005 and 21 April 2006, respectively and an implementation plan (《北京燃氣有限公司管道天然氣特許經營項目實施方案》) agreed in principle by Beijing People's Government in 2006, the Group was first allowed in principle to exclusively operate the natural gas network in Beijing for 25 years. According to the "Municipal Utility Concession Administrative Measures" (《市政公用事業特許經營管理辦法》) (the "**Concession Measures**") issued by the Ministry of Construction in March 2004 which became effective on 1 May 2004 and amended on 4 May 2015, the concession right of operating a natural gas network in an urban area of a city county or province has a maximum duration of 30 years. On 22 January 2007, the Beijing Municipal Administration Commission issued the natural gas operation permit (《北京市燃氣經營許可證》) to the Group officially granting it the concession right for operating the urban natural gas pipeline networks of Beijing.

No assurance can be given that the Group will be able to continue to satisfy the conditions of the concession right or that the concession right will not be terminated or withdrawn before its expiry in 2032. Even if the concession right is not pre-terminated, upon its expiry in 2032, the concession right will be subject to re-approval by relevant governmental authorities. No assurance can be given that the Beijing Municipal Government will renew the concession right once it expires or becomes ineffective. In the event that the concession right in operating a natural gas pipeline network in Beijing expires without renewal, is withdrawn or granted to or shared by other piped natural gas distributors, the Group's monopolistic status in gas distribution business would be materially adversely affected and its future development would be constrained, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group relies on a single supplier for substantially all of the Group's supply of natural gas.

The Group relies on a single supplier, PetroChina Company Limited ("**PetroChina**"), for substantially all of its natural gas supply. While the Group has annual contracts with its supplier, the Group may be unable to negotiate extensions or replacements of these contracts on favourable terms, or at all. The loss of a substantial portion of the volumes of natural gas supplied by PetroChina could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group relies upon PetroChina to produce, in a timely manner, the quality and volumes of natural gas for which it contracts with the Group. In the event that PetroChina does not perform in accordance with its contractual obligations, the Group may be required to seek alternative sources of natural gas supply. In the event that such supply becomes scarce, whether as a result of lack of supply, extreme demand, political events, natural disasters or otherwise, the Group may not be able to secure alternative natural gas supplies in a timely manner, at a reasonable cost, or at all. This would in turn have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group is subject to price controls in its markets for natural gas, which limit its flexibility to raise or set prices and pass along cost increases.

Fees charged by the Group for piped gas to residential customers and pipeline connections to residential customers in the PRC are fixed by local pricing bureaus. In addition, fees charged by the Group for piped gas to customers who use the natural gas for commercial or industrial purposes must fall within a price range set by local pricing bureaus. There is no assurance that local pricing bureaus will increase gas tariffs to take account of any future increases in natural gas prices or that the pricing bureaus will not lower existing tariffs. No assurance can be given by the Group that such cost pass through clause will not be adjusted on less favourable terms or revoked by the relevant authorities, in which case the business, financial condition, results of operations and prospects of the Group may be materially adversely affected.

The Group is exposed to the credit risk of its non-residential customers, and any increase in the level of non-payment by the Group's customers may affect its business, financial condition, results of operations and prospects.

Non-residential customers generally consume high volumes of piped gas and non-payment is a major concern. Although the Group has the ability to terminate or suspend service to customers who do not pay, any material increase in non-payment by its customers may materially adversely affect the Group's business, financial condition, results of operations and prospects.

For the Group's natural gas pipeline construction projects, the Group obtains full payment prior to commencing work. For selected pipeline construction projects of the PRC government, the Group may commence work on the project prior to receiving payment, provided it has prior approval from the board of directors of the Guarantor. Such situations arise typically in connection with one-time projects which, in the opinion of the board of directors of the Guarantor, carry low counterparty risk. If the Group's accounts receivables increase by a substantial amount without the corresponding financing alternatives being available to fund the working capital, it would materially adversely affect the Group's operating cash flow, business, financial condition, results of operations and prospects.

The Group is subject to risks related to non-performance by its suppliers, and other counterparties due to force majeure events.

Substantially all of the Group's contracts with suppliers and other counterparties have force majeure provisions that permit such parties to suspend, terminate or otherwise not perform obligations under their contracts upon the occurrence of certain events including, but not limited to, strikes and other industrial or labour disturbances, terrorism, restraints of government, civil disturbances, accidents or breakages of machinery or equipment, failure of suppliers, interruptions or delays in transportation, or any natural disaster; all being circumstances not within the control of the party claiming force majeure. A force majeure event under the Group's long-term natural gas supply contracts includes any act, event or circumstance which renders performance uneconomical for the Group or its supplier. If one or more of the Group's suppliers or other counterparties do not perform under their contracts for any extended period of time, due to the declaration of a force majeure event or otherwise, the Group's business, financial condition, results of operations and prospects could be materially adversely affected.

The Group faces competition from competing products within the energy industry.

Due to high barriers to entry, the Group does not currently face any significant direct competition in the provision of natural gas in Beijing. The Group does, however, face competition from energy substitutes including coal gas, liquefied petroleum gas ("**LPG**") and electricity. Fuel consumers consider factors such as connection fees, usage charges, energy content, reliability, convenience and safety when choosing a particular type of fuel. Most major appliances, such as cooking stoves or hot water units, can only run on a single fuel such as natural gas, LPG or electricity. There is no assurance that existing customers will continue to choose natural gas. The Group's success depends on its ability to compete effectively with the existing and new energy substitutes in the PRC. Intensified competition among energy sources may result in increased costs and downward pressure on prices, all of which may materially adversely affect the Group's business, financial condition, results of operations and prospects. There is no assurance that the Group will be able to compete successfully against existing and potential energy substitutes or that increased competition within the energy industry will not have an adverse effect on its business and financial condition. Any material decrease in the usage of natural gas by the Group's customers may materially adversely affect its business, financial condition, results of operations and prospects.

The continuation of the Group's natural gas business depends on its ability to maintain licences.

The Group conducts its natural gas business pursuant to licences from the PRC government which authorises the Group, in some instances, to provide exclusive gas delivery services in certain locations. The PRC government may revoke the Group's licences in certain circumstances based on the recommendation of the governmental bodies charged with the regulation of the transportation, distribution, marketing and storage of gas. The reasons for which any of the Group's licences in the PRC may be revoked include:

- repeated failure to comply with the obligations under the Group's licences and failure to remedy a significant breach of obligation in accordance with specified procedures;
- total or partial interruption of service for reasons attributable to the Group;
- sale, assignment or transfer of the Group's essential assets or the placing of encumbrances thereon without prior authorisation, unless such encumbrances serve to finance extensions and improvements to the gas pipeline system;
- bankruptcy, dissolution or liquidation;
- gas supplied failing to meet the national standards, and if such failure persists in spite of warnings of relevant regulatory agencies and beyond grace periods, if any;
- ceasing and abandoning the provision of the licensed service, attempting to assign or unilaterally transfer the Group's licences in full or in part without prior authorisation, or giving up its licences, other than in the cases permitted therein; and
- delegation of the functions granted in such licences without the prior regulatory authorisation.

If any of the licences are revoked, the Group would be required to cease providing natural gas distribution and transmission services. The loss of some or all of the Group's licences may have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group's revenues may be materially adversely affected by changes in climate brought about by global warming and development of alternative energy sources.

The demand and use of natural gas in the PRC is closely correlated to the weather. Natural gas is used mainly for heating purposes in the PRC. Any global or local increase in temperature, particularly in the markets serviced by the Group, will lead to a decrease in the demand for natural gas. Such decrease in demand and sales will have an adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition, climate change resulting from global warming and increased level of greenhouse gases may provide incentives for the PRC and other governments to promote or invest in alternative energy sources such as hydroelectric, wind, solar, nuclear and biomass power plants, which may lead to a decrease in market demand and policy support for the Group's natural gas distribution and transmission business and may in turn have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Changes in government policies could affect the Group's business.

The Group's business will be affected by changes in policies, laws and regulations (or the interpretation thereof) in the PRC energy industry. For example, if the PRC government favours a particular type of energy, other than natural gas and coal gas, due to the energy policy generally or cost concerns, the Group's business, financial condition, results of operations and prospects will be materially adversely affected. In addition, recent global concerns over carbon emission may cause the PRC government to introduce policies that may lead to restrictions on the natural gas industry, such as imposition of a carbon emissions tax.

The PRC government and local authorities have issued various regulations and policies to standardise the pricing mechanism of natural gas. For example, on 31 May 2010, the NDRC adjusted the price-setting mechanism of natural gas. In order to save resources, to adjust the prices of natural gas with other alternative resources and to allocate natural gas resources rationally, the NDRC decided to increase the ex-factory benchmark price of natural gas produced in China and improve the natural gas pricing policies and related measures, which include removing the "dual-pricing mechanism", increasing the ex-factory benchmark price of onshore natural gases produced in China and increasing the floating range of prices. After combining the first and second tiers of prices of onshore natural gases produced in China, the ex-factory benchmark price may fluctuate up to 10.0 per cent. of the guidance price with no limit on the minimum price, and business parties may negotiate the actual price within such floating range.

On 26 December 2011, the NDRC decided to implement the reform of natural gas price formation mechanism in Guangdong Province and Guangxi Autonomous Region. The purpose of such reform is to cause the ex-factory price of natural gas to be decided by the market with the government only interfering with the price of natural gas pipeline transmission due to natural monopoly. Such reform is proposed to be carried out in the following aspects: first, changing the prevailing pricing method (cost plus pricing) to "net back pricing", deciding the pricing reference point and the types of alternative energy, and establishing the connection between the prices of natural gas and alternative energy. Second, determining the price of natural gas at city gate in each province (region and city), based on the pricing reference point and taking into consideration the major consumers of natural gas resources and pipeline transmission costs. Third, the price of natural gas at city gate will be dynamic and adjusted annually based on the changes of alternative energy prices, and will be adjusted semi-annually or quarterly in the future. Fourth, a market-oriented pricing mechanism will be implemented to set the prices of unconventional natural gas such as shale gas, coal bed methane and coal-to-gas.

On 28 June 2013, NDRC released the Circular on Adjustment of the Price of Natural Gas (《國家發展改革委關於調整天然氣價格的通知》). Pursuant to the circular, the NDRC expanded the above-mentioned reform nation-wide. Prices of natural gas will be linked to the prices of alternative energy, and the prices will be determined at city gates, by the market (i.e., by natural gas suppliers and consumers themselves), subject to a ceiling price set by the government. Natural gas prices slightly increased, but caps were set for the prices increase. Price of natural gas used to make fertiliser cannot increase by more than RMB0.25 per cubic metre and prices of other non-residential natural gas cannot increase by more than RMB0.4 per cubic metre. Gas prices for residential users will remain unchanged.

On 26 February 2015, NDRC released the Circular on Adjustment of the Price of Natural Gas for Non-residents (《國家發展改革委關於理順非居民用天然氣價格的通知》). Pursuant to the circular, the NDRC aimed to accomplish the following: First, the maximum price of existing natural gas at city gate and the maximum price of increased natural gas at city gate shall be the same for a province (region and city). Second, the price of natural gas for direct users (fertiliser producers excluded) at city gate shall be determined by the buyers and sellers directly and natural gas price for fertiliser producers will be raised slightly. Third, gas prices for residential users will remain unchanged.

On 18 November 2015, NDRC released the Circular on Lowering the Price of Natural Gas at City Gate for Non-residential Use and Further Promoting Market-oriented Price Reform (《關於降低非居民用天然氣門站價格並進一步推進價格市場化改革的通知》). Pursuant to the circular, starting from 20 November 2015, (i) the maximum price of natural gas at city gate for non-residential use is cut by RMB700 per thousand cubic metre while the price for natural gas used to make fertiliser remains unchanged; and (ii) the maximum price of natural gas at city gate will serve as benchmark price, based on which the natural gas suppliers and consumers will negotiate a specific price, with a cap at 1.2 times of the benchmark price. However, the specific price determined by natural gas suppliers for consumers via negotiation shall not be higher than the benchmark price until 20 November 2016.

Based on the 13th Five-Year Plan for Natural Gas Development (《天然氣發展"十三五"規劃》) issued by the NDRC, the PRC government adopted multiple approaches to promote the market-oriented reform of natural gas price during years 2016 to 2020, such as separation of pipeline transmission and sale of natural gas, lifting pricing restrictions on natural gas price for non-residential use, promotion of natural gas consumption growth, further perfection of natural gas pricing mechanism for residential use, perfection of the linkage mechanism between the upstream and downstream natural gas price and strengthening of supervision of the price and cost of natural gas transmission.

On 9 October 2016, NDRC released the Administrative Measures for the Price of the Natural Gas Pipeline Transmission (for Trial Implementation)(《天然氣管道運輸價格管理辦法(試行)》) and the Measures for the Supervision and Examination of the Pricing and Costs of the Natural Gas Pipeline Transmission (for Trial Implementation)(《天然氣管道運輸定價成本監審辦法(試行)》). According to these two measures, the price for natural gas pipeline transmission across provinces shall be fixed by the price authority directly under the State Council of the PRC based on the principle of cost-plus-reasonable profits and may be adjusted once every three years. The natural gas distribution business of the Group mainly concentrates on the municipal natural gas networks in urban areas, except for the Guarantor's 40.0 per cent. owned associate, PetroChina Beijing Gas Pipeline Co., Ltd. ("**PetroChina Beijing Pipeline Co.**"), whose business involves the cross-provincial natural gas pipeline.

On 20 June 2017, the NDRC released the Guidance of Strengthening Supervisions of Natural Gas Distribution Tariffs (《關於加強配氣價格監管的指導意見》) for the purpose of enhancing regulations on city gas distributors. Pursuant to this guidance, local pricing authorities will identify the reasonable cost levels for local gas distributors and then determine the local tariffs based on the principle of "allowed costs plus reasonable return". The NDRC recommended that local government set up a reward system for gas distributors to lower standard operating cost, with the cost savings to be shared with customers.

On 25 May 2018, the NDRC released the Circular on Adjustment of the City-Gate Tariff of Natural Gas for Residential Users (《關於理順居民用氣門站價格的通知》). In this Circular, the NDRC announced the alignment of residential and non-residential city-gate tariffs, effective from 10 June 2018, by firstly, raising the residential city-gate prices to converge with the non-residential ones and secondly, by allowing the converged city-gate prices to be raised by less than 20 per cent. or lowered without a floor, based on the negotiations between upstream suppliers and buyers.

On 1 July 2020, the NDRC and the State Administration for Market Regulation ("**SAMR**") promulgated the Circular on Strengthening the Regulation of Natural Gas Transmission and Distribution Prices (《關於加強天然氣輸配價格監管的通知》). The circular states that prices for pipeline transmission within the province and for gas distribution in urban areas shall be reasonably set and assessed under the principle of "allowable costs plus reasonable profits". All regions of the PRC are required to formulate administrative measures for gas distribution prices and assess independent gas distribution prices, with the allowable rate of return on qualified assets set at no more than 7.0 per cent., which may be appropriately lowered in the light of local realities. All regions of the PRC are encouraged to explore and establish an incentive mechanism for sharing the benefits between pipeline transmission enterprises and users, so as to encourage enterprises to improve their operating efficiency and further reduce costs.

No assurance can be given by the Group that future government policies relating to the natural gas industry will not affect its business and operations. If amendments to government policies or the promulgation of new policies are adverse to the Group, its business, financial condition, results of operations and prospects may be materially adversely affected.

The Group's sales of natural gas are subject to seasonal fluctuations.

Gas consumption in the PRC is subject to seasonal peaks and troughs. Natural gas demand peaks in the period when weather in Beijing and the rest of the PRC reaches low points from October to March. Demand begins to slacken during the warm season, which typically lasts for five to six months from May to September of each year. As such, revenue and costs typically rise during the peak season and decrease during the slack period. In the event that there is a sudden rise in natural gas prices from suppliers and if the Group does not have enough financial resources to withstand expenses during the slack periods, the Group's business, financial condition, results of operations and prospects would be materially adversely affected.

The Group may experience difficulties in expanding its business to new cities or regions where the Group does not have a presence.

As part of the Group's business expansion plans, it intends to expand its natural gas distribution and transmission business through selective acquisitions or by forming joint ventures. The Group may face unforeseen costs, delays in negotiating terms of agreements, difficulties in obtaining licences from local government and regulatory authorities and competition from local service providers. Any delays in implementing the Group's expansion plans may divert management attention from daily activities and may have a material adverse impact on the Group's business, financial condition, results of operations and prospects.

Labour disruptions could interrupt the Group's operations.

As at 31 December 2020, the Group employed approximately 39,000 employees, substantially all of whom are located in the PRC and Hong Kong. Some of the Group's PRC employees are currently represented by labour unions. In addition, employees of some of the Group's suppliers, contractors or companies (in each case, especially in the PRC) in which the Group has investments are or may become unionised in the future or experience labour instability. Although the Group enjoys good labour relations with its employees, the Group is unable to predict the outcome of any future labour negotiations. Any conflicts with the Group's employees or contractors and/or their respective unions could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Risks relating to the Group's Beer Business

The beer business is a highly competitive and fragmented market.

The brewery industry in the PRC has gone through initial consolidation in 2016 but is still highly fragmented with over 100 brewers. The Group's main competitors include large local and international breweries, such as the Tsingtao Brewery Group, China Resources Snow Breweries Co. Ltd., Anheuser-Busch InBev SA/NV and Carlsberg Group and other numerous local breweries, many of whom have better financial and other capital resources and marketing expertise. The Group's beer business has lost certain market share due to intense competition. Competition in the brewery industry is expected to continue to intensify as leading breweries compete against one another to acquire local and regional breweries in order to increase their respective market shares and this is likely to increase price sensitivity, and may have an adverse effect on the Group's business, financial condition, results of operations and prospects.

Disruptions in the supply of, or price fluctuations in, the Group's major raw materials may materially adversely affect its operations

Rice, hops and malt are the major raw materials for the Group's beer business. The Group's average unit cost of beer is closely related to the market price of the raw materials, which is affected by factors including market demand and supply, domestic government policy and the occurrence of climatic and other natural disasters such as droughts, floods or earthquakes. No assurance can be given that the Group will be able to adjust the prices of its products to pass on any increase in the price of the raw materials to its customers. Any failure to pass on any significant increase in the price of the Group's raw materials to its customers, or any significant increase in the price of its raw materials may have an adverse effect on the Group's business, financial condition, results of operations and prospects.

Historically, the Group has purchased a large portion of its requirement of rice, malt and hops directly from local farmers, and have not entered into any long term procurement agreements with any of them. No assurance can be given by the Group that it will continue to be able to procure a sufficient supply of raw materials from local farmers at a price acceptable to the Group in the future or at all. Any interruption in the supply of the Group's raw materials may have an adverse effect on its business, financial condition, results of operations and prospects.

The Group's performance may be affected by its relationship with its distributors.

The Group's products are primarily sold through its network of distributors. No assurance can be given that these distributors will continue to purchase beer from the Group in the future. In the event that a significant number of the Group's distributors cease to purchase beer from the Group and the Group is unable to sell beer to alternative customers, its business, financial condition, results of operations and prospects may be materially adversely affected.

The Group's business may be materially adversely affected by any infringement of its brand names and trademarks.

The Group uses brand names including "Yanjing," "Liquan," "Huiquan" and "Xuelu" and related trademarks for its beverage products. The Group believes that the use of such brand names and trademarks is key to establishing its distinctive corporate and market identities. The passing off of products with famous brand names and trademarks in the PRC remains a concern. Any significant or uncontrolled infringement could have a material adverse effect on the reputation of the "Yanjing," "Liquan," "Huiquan" and "Xuelu" or other brand names of the Group and may in turn have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's business performance may be affected by a change in consumers' preference and/or purchasing power.

Demand for the Group's products relies on the end-consumers' acceptance of beer in general and the purchasing power of these end-consumers. No assurance can be given that the Group's end-consumers will continue to purchase its brewery products in the future. If the preferences of consumers change in the future and if they prefer other beverages or beer manufactured by other producers, the Group's business, financial condition, results of operations and prospects may be materially adversely affected. A sustained period of slower economic growth in the PRC or, more specifically, in Beijing may dampen the purchasing power of consumers in these regions and in turn have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's business, financial condition, results of operations and prospects may be materially adversely affected by any claims in respect of product liability.

The Group may face claims in respect of product liability such as potential contamination of ingredients or products by bacteria or other external agents that may be wrongfully or accidentally introduced into products or packaging or other potential liability resulting from the handling of brewery products.

Although the Group has not experienced any material claims in respect of its business and operations, any product or packaging problem may nevertheless materially adversely affect the Group's business, financial condition, results of operations and prospects, as well as its reputation.

Risks relating to the Group's Water and Environmental Business

Water shortages and restrictions on the use or supply of water could materially adversely affect the business of Beijing Enterprises Water Group Limited ("BE Water").

In the event of water shortages, additional costs may be incurred in order to provide emergency reinforcement to supplies in areas of shortage which may materially adversely affect BE Water's business, financial condition, results of operations and prospects. In addition, restrictions on the use or supply of water may materially adversely affect BE Water's turnover and, in very extreme circumstances, may lead to significant compensation becoming due to customers because of interruptions to supply, both of which could materially adversely affect the Group's business, financial condition, results of operations and prospects.

BE Water's customers may make claims against it and terminate its services in whole or in part prematurely should BE Water breach terms of its agreements with them or fail to implement projects which satisfy their requirements and expectations.

BE Water is engaged in various comprehensive renovation projects for the construction of water infrastructure in the PRC and BOT projects. No assurance can be given by BE Water that the construction of the above projects will be completed on time or that these projects will be completed which fulfill the requirements and expectations of its customers. Failure to complete projects on time or fully in compliance with the requirements and expectations of its customers, or the delivery by it of defective systems or products, may lead to claims being brought against it by customers and/or termination of its services in whole or in part and/or calls by customers for payment of the performance bonds provided by BE Water. Unsatisfactory design or workmanship, staff turnover, human errors, failure to deliver services on time, default by its sub-contractors or misinterpretation of or failure to adhere to regulations and procedures could result in delays or failures in the construction, testing or commissioning of any water plant. As a result, BE Water could experience delays in the recognition of its revenue from such projects and it may not receive payments from its customers, which could materially adversely affect its cashflow. This could have a material adverse effect on its business, financial condition, results of operations and prospects. In addition, its reputation may be negatively affected which could negatively affect its ability to obtain new projects. If any of these occur, BE Water's profit attributable to the Group may be materially adversely affected.

Sewage and reclaimed water treatment and water distribution projects are capital intensive with long payback periods and BE Water may require additional funding for these and other investment projects.

BE Water is engaged in sewage and reclaimed water treatment and water distribution projects primarily on a BOT basis, a Build-Own-Operate ("**BOO**") basis or a transfer-operate-transfer ("**TOT**") basis, which typically requires significant initial cash outlays and has long payback periods. These projects require BE Water to make substantial financial investments during the construction phase of the projects, which typically lasts for 12 to 18 months. In connection with the projects operated on a BOT or BOO business model, BE Water is responsible for the costs of construction of the sewage or reclaimed water treatment and water distribution facilities and the operation of the facilities during the concession period, which may be up to 40 years. During such periods, BE Water bears the costs of maintenance and repair of the facilities. After the construction is completed and commercial operations of the relevant facilities have commenced (in the case of BOT or BOO projects) and upon obtaining the TOT Operation Right (in the case of TOT projects), BE Water receives regular, typically monthly, tariff payments from its customers during the concession period.

Due to the capital intensive and long-term nature of BOT, BOO and TOT projects and other projects format requiring substantial capital investment, there is no assurance that BE Water will be able to secure adequate funding or refinancing for these projects on terms that are acceptable to it, or at all, or that these projects will achieve their initial expected returns. If BE Water fails to obtain project financing or refinancing for these projects or other projects in the amount budgeted, or at all, it may need to finance these projects from its internal resources, which may strain its resources for developing or acquiring other projects and other corporate purposes. In addition, BE Water has used certain assets, including equity interest in certain of its subsidiaries and certain sewage and reclaimed water treatment and water distribution concession right to secure certain of its financing. Such security will constrain its ability to dispose such assets when required.

In addition, failure to properly perform BE Water's obligations in respect of these projects may lead to a reduction in its returns and may even lead to a loss of all or part of its initial capital investments. As a result, BE Water may not be able to undertake or acquire new projects, and the Group's business, financial condition, results of operations and prospects may in turn be materially adversely affected.

BE Water typically only receives payment in connection with the revenue recognised from the construction of its BOT projects on receipt of cash tariff payments during the operational phase of its BOT projects.

For each of BE Water's BOT projects, once the facility is operational, it receives regular, usually monthly, cash payments from the relevant customer based on the contractually agreed pricing formula and the volume of sewage and reclaimed water treated or water supplied (or the contractually guaranteed minimum volume, if any). BE Water usually does not receive payments from its customers during the construction phase of these projects. However, in accordance with HKFRSs as supplemented by Hong Kong (International Financial Reporting Interpretations Committee) – Interpretation 12 *Service Concession Arrangements*, BE Water recognises revenue from these projects during both the construction phase and the operational phase. BE Water records revenue during the construction phase on the basis of percentage of completion method, based on the cost of construction incurred plus the fair market value of a certain mark-up on the construction costs determined by an independent appraiser. The revenue recognised from the construction phase of a BOT project is also recognised as a service concession receivable to be offset against the allocated amount after receipt of the cash tariff and other payments received related to the relevant project during the operational phase. Service concession receivables for BOT projects are settled during the concession periods of the relevant BOT projects, which can be up to 20 to 30 years. There is no assurance that the service concession receivables will be fully settled before the expiry of the relevant concession period, which may result in the impairment of BE Water's financial assets.

BE Water may not be able to secure new construction projects.

A substantial part of BE Water's revenue is generated from its construction services for water environmental renovation projects. For the years ended 31 December 2018, 2019 and 2020, revenue from construction services accounted for 62.2 per cent., 63.4 per cent. and 51.8 per cent. respectively, of BE Water's total revenue. A customer that accounts for a material portion of such revenue in a given period may not generate a similar amount of revenue, if any, in subsequent periods. As such, in order for BE Water to maintain and increase its revenue and profitability, it needs to secure additional projects from other customers and if it fails to do so, its business, financial condition, results of operations and prospects may be materially adversely affected.

BE Water is subject to risks associated with technological changes.

As an established integrated water solutions provider, BE Water must ensure that it is able to continually provide state-of-the-art solutions to its customers that meet their needs in order to maintain its market share. However, there are rapid technological changes and improvements in sewage and reclaimed water treatment technology and equipment. BE Water's products and technologies must pass rigorous testing and field trials, which can be time-consuming and expensive. The commencement and completion of the tests and field trials are subject to many factors such as delays in producing or failure to produce test results, data or analysis, inadequate or inconclusive results, changes in regulatory policies or industry standards or delays by government or regulatory authorities. Changes in regulations or standards for sewage and water treatment in regions where BE Water conducts its business may also necessitate the use of new technologies or the improvement of its existing technologies. For example, BE Water may need to develop new technologies or upgrade existing technologies or facilities to meet the standards imposed by the Ministry of Health of the PRC or other regulatory authorities from time to time. In the event that BE Water is unable to develop or source new and enhanced sewage and water treatment solutions to keep up with such technological changes or changes in regulatory requirements, its business, financial condition, results of operations and prospects may be materially adversely affected.

BE Water's operations may be limited by environmental regulations, and it may be exposed to risks relating to environmental, health and safety issues.

BE Water's water treatment and water distribution and construction operations could expose it to the risk of substantial liability relating to environmental, health and safety issues, such as those resulting from discharge of pollutants into the environment, handling, storage and disposal of solid or hazardous materials or wastes and the investigation and remediation of contaminated sites. BE Water may be responsible for the investigation and remediation of environmental conditions at currently and formerly operated construction sites. BE Water may also be subject to associated liabilities, including liabilities for natural resource damage, third party property damage or personal injury resulting from lawsuits brought by the PRC government or private litigants as a result of its or its subcontractors' activities. In the course of its operations, hazardous wastes may be generated at third-party-owned or operated sites, and hazardous wastes may be disposed of or treated as third-party-owned or operated disposal sites. If those sites become contaminated, BE Water could be held responsible for the cost of investigation and remediation of such sites, any associated natural resource damage, and civil or criminal fines or penalties, and its business, financial condition, results of operations and prospects may be materially adversely affected.

Extensive regulations may limit BE Water's flexibility to respond to market conditions and competition, and its water distribution operations may suffer.

Revenue from BE Water's water distribution business consists primarily of tariff payments under the relevant concession agreements. Adjustments to tariffs are generally subject to approvals by the relevant government authorities in the PRC, and applications for upward adjustments to the tariffs may be made in the case of increases in key costs including raw material prices, labour costs and electricity charges. In the event that there is any increase in such key costs, there is no assurance that the relevant government authorities will approve BE Water's applications for increasing the tariffs to reflect such increase in costs. Furthermore, even if the relevant government authorities agree to increase the tariff, there is no assurance that such increase will fully reflect the increase in BE Water's actual costs. If there is an increase in BE Water's costs but tariff is not allowed to increase, or tariff is allowed to increase but such increase could not fully reflect the increase in BE Water's actual costs, BE Water's business, financial condition, results of operations and prospects may be materially adversely affected if any of these circumstances occurs.

BE Water is exposed to the credit risk and payment delays of its customers.

BE Water is subject to credit risks of its customers and its profitability is dependent on its customers making prompt payment on billings for work performed by BE Water. BE Water's construction and service contracts provide for payments by instalment. If there is any delay in payments by BE Water's customers, BE Water's working capital, profitability and cash flow may be materially adversely affected, which may materially adversely affect its business, financial condition, results of operations and prospects.

The continued growth of BE Water's business requires substantial capital expenditure.

BE Water will require significant additional financing to fund capital expenditures and to support the future growth of its business, particularly for its construction projects and acquisition of water plants. Historically, BE Water has financed its capital expenditures from various sources, including cash flow from operations and existing credit facilities. BE Water's ability to arrange for external financing and the costs of such financing are dependent on numerous factors, including general economic conditions, interest rates, credit availability from banks or other lenders. However, there can be no assurance that additional external financing, either on a short-term or on a long-term basis, will be made available or, if available, that such financing will be obtained on terms favourable to BE Water. If, for any reason, adequate capital is not available when needed and at favourable costs, such shortage of capital may have a material adverse effect on BE Water's business, financial condition, results of operations and prospects.

Failure to achieve the projected utilisation of the facilities BE Water operates may materially adversely affect its earnings.

Each of BE Water's BOT and TOT projects has been or will be built to a specific design capacity in accordance with the terms of the relevant concession agreement. Depending on the growth in the population and level of industrialisation in the area serviced by the relevant facilities, there is no assurance that the facilities BE Water operates will be able to achieve the forecast utilisation of their design capacity, which may materially adversely affect its results of operations. If the facilities BE Water operates are not utilised to their designed capacities, BE Water may not generate the expected revenue and profit and its business, financial condition, results of operations and prospects may be materially adversely affected.

Risks relating to the Group's Solid Waste Treatment Business

The Group's solid waste treatment projects have a limited period of operation and the Group may not be able to recover the cost of investment or generate desirable revenue as anticipated.

The Group's concession rights to operate household waste treatment plants and hazardous waste treatment plants are for limited periods, typically 20 to 30 years, under relevant concession agreements. Upon the expiry of concession agreements, the ownership of and right to operate all projects other than BOO projects will be transferred back to the relevant grantor(s) of concession rights, unless the concession agreements are extended or renewed. There is no assurance that the Group will be able to recover the cost of investment or generate desirable revenue as anticipated within the limited operation periods. In addition, if there are disruptions during the operation phase, the actual operation period of the solid waste treatment projects may be shorter than anticipated and the Group may not be able to fully recover the high capital investment cost or generate a desirable level of revenue. If the operating period is shortened or disrupted or should the Group lose the right to operate these plants before the expiration of the concession rights, the Group's business, financial condition, results of operations and prospects may be materially adversely affected.

Furthermore, in respect of household waste treatment projects, given that concession rights are for limited periods and substantial capital expenditure is required for the acquisition, construction and upgrading of household waste treatment plants, the Group cannot estimate with certainty the payback periods of the investments. As one of the main sources of the project companies' revenue (i.e. on-grid tariffs) is subject to government price-setting, any reduction in on-grid tariffs may also affect the project companies' cash flow and their ability to repay their debts.

The Group's household waste treatment project companies rely heavily on a single customer for sale of electricity.

Similar to other waste-to-energy industry players in the PRC, certain concession agreements between the relevant local governmental authorities and the Group's household waste treatment project companies require the sale of electricity to a single grid company. Such high level of reliance on a single customer by these projects may not be easily mitigated due to the nature of the regulatory regime, and therefore is unlikely to decrease in the foreseeable future. By contrast, the grid companies do not rely heavily on the project companies in their purchase of electricity, as the Group believes that its project companies are not major suppliers of the grid companies. As electricity generated from household waste treatment projects is renewable energy, grid companies are required to fully purchase on-grid electricity generated by these project companies under current PRC laws and regulation. If the PRC government's policy changes, these grid companies may not purchase electricity from the Group's project companies and the Group may not be able to source alternative purchasers for the electricity generated by them.

Moreover, the contracts entered into by the project companies with grid companies are with a term of one to five years. There is no assurance that such contracts may be renewed upon expiry.

Any significant contractual breach, insolvency or liquidation of the relevant customer or non-compliance with or changes in governmental policies in relation to mandatory purchase of electricity will make it difficult for the Group's project companies to find alternative purchasers and could materially adversely affect the Group's business, financial condition, results of operations and prospects.

WTE plants are highly dependent on the due performance of respective waste providers.

The power generation at WTE plants heavily relies on the supply of household waste, and the operations are therefore highly dependent on the Group's ability to successfully secure sufficient amounts of household waste supplies and that the household waste providers fulfil most of their obligations under the relevant supply contracts. While the Group's household waste treatment projects have the benefit of certain undertakings from governmental authorities in respect of supply of household waste under the relevant concession agreements, the Group may encounter difficulties in enforcing such undertakings against the governmental authorities. Uncertainties include failure to renew waste treatment contracts upon expiry, shortage of household waste provided by household waste providers or early termination as a result of any breach or liquidation of the household waste providers. If the Group fails to renew their existing contracts or secure replacement contracts for the sufficient supply of household waste on commercially acceptable terms, the Group's business, financial condition, results of operations and prospects may be materially adversely affected.

Furthermore, the Group relies on the household waste providers' compliance with their obligations to ensure that no prohibited waste such as explosive waste, medical waste, industrial waste and construction waste are included in the household waste delivered to them. Any failure on the part of the household waste providers to duly perform their contractual obligations would affect the efficiency and performance of the WTE plants of the household waste treatment project companies.

The PRC government has been implementing various policies to promote the recycling of waste materials, such as the recent promotion of waste sorting in major cities in the PRC. These measures may reduce the amount of waste suitable for household waste treatment, which will reduce the supply of household waste to household waste treatment projects and lead to a decrease in demand for WTE services and consequently, the Group's business, financial condition, results of operations and prospects could be materially adversely impacted.

The Group depends on the PRC government's policies and regulatory framework supporting solid waste treatment and energy generation.

The development and profitability of solid waste treatment and WTE power projects in the PRC is significantly dependent on policies and regulatory framework that support such development. From time to time, changes in the laws and regulations or the implementation thereof may require the Group to obtain additional approvals from the PRC authorities or fulfil additional requirements for the conduct of its operations in the PRC. In such event, the Group may incur additional expenses in order to comply with such requirements. There is no assurance that the PRC government will continue to implement, and that it will not adjust or even abolish its favourable policies related to the promotion of solid waste treatment and WTE power projects. In the future, favourable PRC regulatory policies for WTE technology may apply differently where more advanced or different WTE technology are adopted by the relevant project. If any of the foregoing were to occur, it would in turn affect the financial performance of the Group as its business costs will increase, and hence the Group's business, financial condition, results of operations and prospects may be materially adversely affected.

Disposal of solid waste and hazardous waste and operation of waste power generation projects have certain safety risks.

Disposal of solid waste and hazardous waste and operation of waste power generation projects have certain safety risks arising from production. The Group's hazardous waste projects generally treat hazardous waste that is toxic, harmful and corrosive. Therefore, there exist certain risks relating to production safety in the process of collection, loading and unloading, transportation, storage, disposal and resource utilisation of hazardous waste.

For instance, in August 2019, one accident occurred at one of the Group's sites for disposing of solid waste. According to an investigation report on this accident issued by local emergency bureau, the direct cause of such accident is non-compliance with safety operation protocol by the employees of the project company and the indirect cause of the accident is substandard administration and enforcement of safety operation by the project company and its general manager. Penalty in the amount of RMB26,000 has been imposed on the project company by local emergency bureau as a result. The aforesaid project company has taken steps to prevent recurrence of accidents, including overhauling the safety management system, conducting safety training for employees and engaging a third party to conduct safety control checks and analysis.

Any occurrence of similar accidents involving personal safety or pollution will materially adversely impact the production, operation and reputation of the Group and the Group's business, financial condition, results of operations and prospects.

Volatility in demand for hazardous waste treatment service could have a material adverse impact on the business of the Group's hazardous waste projects.

Unlike the household waste treatment projects, there is no certainty as to the supply of hazardous waste, as the relevant governmental authority did not guarantee a minimum supply of waste pursuant to the relevant concession agreements in respect of the hazardous waste projects. Demand for hazardous waste treatment service is much more uncertain compared with household waste treatment service. If existing customers or potential customers of the hazardous waste treatment projects, being producers of hazardous waste in their operations, store the wastes for a certain period of time before disposal and/or stop producing hazardous waste in the future, they may no longer procure the services as expected from the Group's hazardous waste treatment projects and it may materially adversely impact the business, financial condition, results of operations and prospects of the Group.

Customers or potential customers may also obtain hazardous waste treatment qualifications on their own for treatment of wastes produced. Upon commencement of operations of their own treatment centres, these customers may no longer procure services from the Group and even become the Group's competitors which may have a material adverse impact on the business, financial condition, results of operations and prospects of the Group.

Risks Relating to the PRC

Changes in PRC political and economic policies and conditions as well as governmental policies could adversely affect the Group's business, financial condition, results of operations and prospects.

The PRC has been, and will continue to be, a significant operating base for the Group's business. The economy of the PRC differs from the economies of most developed countries in many respects, including:

- structure;

- level of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

The PRC government has been pursuing economic reforms to transform its economy from a planned economy to a market economy since 1978 emphasising utilisation of market forces in the development of the PRC economy. However, a substantial part of the PRC economy is still being operated under various controls of the PRC government and it continues to play a significant role in regulating industries by imposing industrial policies. By imposing industrial policies and other economic measures, such as control of foreign exchange, taxation and foreign investment, the PRC government exerts considerable direct and indirect influence on the development of the PRC economy. Many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on the Group's operations and business development. For example, the PRC government has in the past implemented a number of measures intended to slow down certain segments of the economy that the government believed to be overheating, such as raising benchmark interest rates of commercial banks, reducing currency supply and placing additional limitations on the ability of commercial banks to make loans by raising bank reserves against deposits. The Group's business, results of operations or financial condition may be adversely affected by changes in the PRC political, economic and social conditions, laws, regulations and policies and by changes in the rates or method of taxation and the imposition of additional restrictions on currency conversion.

These limitations on the cash flow between the Group and its PRC subsidiaries could restrict the Group's ability to act in response to changing market conditions or to transfer the proceeds from the issue of the Bonds to its onshore subsidiaries or to receive dividend payments from its PRC subsidiaries, thus affecting the Group's ability to pay the principal, premium (if any) and/or interest (as the case may be) due and payable under the Bonds on each interest payment date, redemption date or on the maturity date of the respective Series of the Bonds.

The national and regional economies in the PRC and the Group's business operations, financial condition, results of operations and prospects may be adversely affected by any force majeure events, including occurrence of natural disasters, acts of God or outbreaks of contagious diseases or other epidemics (such as COVID-19).

The Group's business is subject to general economic and social conditions in the PRC. Any natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, or SARS, swine flu caused by H1N1 virus, or H1N1 Flu, and the recent outbreak of COVID-19 may adversely affect the Group's business, financial condition, results of operations and prospects. Possible force majeure events may give rise to additional costs to be borne by the Group and have adverse effects on the quality of its assets, business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Group's business. In addition, the Group may not be fully insured against such risks. For more details, see "*Risk Factors – The Group's business operations are subject to risks, some of which may not be fully covered by insurance, such as those relating to equipment and systems failure, accidents, interruptions, epidemics and terrorism and no assurance can be given by the Group that significant costs and liabilities will not be incurred.*"

In particular, the on-going COVID-19 outbreak in the PRC has resulted in increased travel restrictions, controls on social gatherings and assemblies and extended delay or suspension of some business activities in the PRC, which may result in adverse impact on the Group's businesses. There is no assurance that the outbreak will not lead to decreased demand for services the Group provides or disruption to the operation of the suppliers, distributors, contractors or business partners of the Group; nor is there assurance that the outbreak's adverse impact on the PRC economy and the Group's customers will not adversely affect the level of non-performing loans. The outbreak may also adversely affect the Group's ability to keep normal operations and provide uninterrupted services to its customers. Furthermore, if any of the Group's or its contractors' employees is affected by any severe communicable disease including COVID-19, it may lead to closure of the Group's properties or facilities to prevent the spread of the disease, which could materially adversely affect the Group's business, financial condition, results of operations and prospects. For more details, see "*Recent Developments – COVID-19 Outbreak*".

Moreover, the PRC has experienced natural disasters like earthquakes, floods and drought in the past few years. For example, in May 2008 and April 2010, the PRC experienced earthquakes with reported magnitudes of 8.0 and 7.1 on the Richter scale in Sichuan and Qinghai provinces respectively, resulting in the death of tens of thousands of people. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and in turn the Group's business.

There can be no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, H1N1 Flu, COVID-19 or other epidemics, or the measures taken by the PRC Government or other countries in response to a future outbreak of avian influenza, SARS, H1N1 Flu, COVID-19 or other epidemics, will not seriously interrupt the Group's operations or those of its customers, which may have a material adverse effect on its business, financial condition, results of operations and prospects.

The implementation of the Labour Contract Law of the PRC may significantly increase the Group's operating expenses and adversely affect its business and results of operations.

The Labour Contract Law of the PRC (the "**Labour Contract Law**") imposes greater liabilities on employers and significantly increases the cost to an employer for workforce reduction. It formalises workers' rights concerning layoffs, employment contracts and the role of trade unions and provides for specific standards and procedures for the termination of an employment contract. In addition, the Labour Contract Law requires a statutory severance payment upon the termination of an employment contract in most cases, including in cases of the expiration of a fixed-term employment contract. In the event that the Group decides to change or decrease its workforce, the Labour Contract Law could adversely limit the Group's ability to effect such changes in a timely and cost-effective manner, and may adversely affect its business and results of operations.

Further, if there is a shortage of labour or for any reason the labour cost in the PRC rises significantly, the costs of production of the Group's products is likely to increase. This may in turn affect the selling prices of products, which may then affect the demand of such products and thereby adversely affect the Group's sales and financial condition. Increase in costs of other components required for production of the products may cause similar adverse effects, particularly if the Group is unable to identify and employ other appropriate means to reduce the costs of production. In such circumstances, the profit margin may decrease and the financial results may be adversely affected.

In addition, inflation in the PRC has increased in recent years. Inflation in the PRC increases the costs of labour and the costs of raw materials the Group must purchase for production. Rising labour costs may increase the Group's operating costs and therefore negatively impact the Group's profitability.

PRC laws and regulations involve many uncertainties and the current legal system in the PRC could have a negative impact on the Group's business and/or limit the legal protections available to Bondholders.

A significant portion of the Group's business is conducted in the PRC and most of its operating subsidiaries are located in the PRC. As such, these PRC subsidiaries are subject to PRC laws and regulations applicable to foreign investment in the PRC. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior cases have little precedent value in deciding subsequent cases in the civil law legal system. Additionally, such PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. When the PRC government started its economic reforms in 1978, it began to build a comprehensive system of laws and regulations to regulate business practices and overall economic orders of the country. The PRC has made significant progress in the promulgation of laws and regulations dealing with business and commercial affairs of various participants of the economy, involving foreign investment, corporate organisation and governance, commercial transactions, taxation and trade. However, the promulgation of new laws, changes in existing laws and abrogation of local regulations by national laws may have an adverse effect on the Group's business, results of operations and financial condition as well as its prospects.

Substantial amendments to the PRC Company Law (《中華人民共和國公司法》) and the PRC Securities Law (《中華人民共和國證券法》) came into effect on 1 January 2006. Since then, the PRC Company Law was further amended on 28 December 2013 and 26 October 2018 (last amendment implemented on 26 October 2018), and the PRC Securities Law was further amended on 29 June 2013, 31 August 2014 and 28 December 2019 (last amendment implemented on 1 March 2020). As a result, the State Council and the CSRC may revise the Special Regulations and the Mandatory Provisions and adopt new rules and regulations, to implement and to reflect the amendments to the PRC Company Law and the PRC Securities Law. The Group cannot guarantee that any revision of the current rules and regulations or the adoption of new rules and regulations by the State Council and the CSRC will not have an adverse effect on the rights of holders of the Bonds.

Additionally, given the involvement of different enforcement bodies of the relevant rules and regulations and the non-binding nature of prior court decisions and administrative rulings, the interpretation and enforcement of PRC laws and regulations involve significant uncertainties under the current legal environment. In addition, the enforcement of existing laws or contracts based on existing laws may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. All these uncertainties may limit the legal protections available to Bondholders.

There is also uncertainty as to whether the courts of PRC would (i) enforce judgments of the courts of England obtained against the Group or its directors or officers in accordance with English law or (ii) entertain original actions brought in PRC against the Group or its directors or officers based on documents governed by and construed in accordance with English law.

Government control over currency conversion may limit the Group's ability to utilise its cash effectively.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. The Guarantor receives a significant portion of its revenues in Renminbi. As a holding company incorporated in Hong Kong, the Guarantor may rely on dividend payments from its PRC subsidiaries to fund any cash and financing requirements of the Group. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange ("**SAFE**") by complying with certain procedural requirements. Therefore, the Group's PRC subsidiaries are able to pay dividends in foreign currencies to the Group without prior approval from the SAFE. But approval from or registration with appropriate government authorities required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. This could affect the ability of the Group's PRC subsidiaries to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from the Group. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents the Group from obtaining sufficient foreign currencies to satisfy the Group's foreign currency demands, the Group may not be able to satisfy its obligations under the Bonds and the Guarantees.

The Group faces foreign exchange and conversion risks and fluctuations in Renminbi may adversely affect the Group's operations and financial results.

The value of Renminbi is subject to changes in the PRC government's policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994 and prior to July 2005, the official exchange rate for the conversion of Renminbi into U.S. dollar was generally stable. However, in July 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar and permitted the Renminbi to fluctuate within a narrow and managed band against a basket of certain foreign currencies. In August 2015, the PBOC changed the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change resulted in a depreciation in the value of the Renminbi of approximately 1.9 per cent. relative to the U.S. dollar on 11 August 2015. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. On 11 December 2015, the China Foreign Exchange Trade System ("**CFETS**") published the CFETS Renminbi exchange rate index for the first time which weighs the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective. On 1 October 2016, the International Monetary Fund included Renminbi in the basket of currencies that make up the Special Drawing Right, along with the U.S. dollar, the Euro, Japanese yen and the British Pound. Since April 2019, Renminbi has depreciated in value against the U.S. dollar amidst an uncertain trade and global economic climate. There is no assurance that the Renminbi will not experience significant fluctuations against the U.S. dollar in the future.

The Group conducts substantially all of its business in the PRC and a large part of its operating cashflows and revenue from operations is in Renminbi, while the Guarantor's financial statements are reported in HK dollars. Certain of the Group's assets and liabilities are denominated in foreign currencies such as U.S. dollars or Euro and, since 2016, the Group has operated certain overseas assets through the acquisition of EEW GmbH, and have recorded revenue and incurred costs and expenses in foreign currency, mainly Euro. Accordingly, any depreciation in Renminbi relative to HK dollar, U.S. dollar or any such foreign currency may have an impact on the Guarantor's financial results and position, and may increase the cost to the Group of servicing its payment obligations under the Bonds and could have an adverse effect on the Group's financial position. The Group currently does not have any derivative financial instruments to hedge its foreign currency risk. While the Group may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited and the Group's currency exchange losses may be magnified by PRC exchange control regulations that restrict the Group's ability to convert foreign currency into Renminbi. As a result, fluctuations in exchange rates among relevant currencies may have a material adverse effect on the Group's results of operations and financial conditions.

The Group's operations may be affected by rising inflation rates within the PRC.

Inflation rates within the PRC have been on an uptrend in recent years. The PRC government has taken numerous monetary tightening measures, including raising interest rates and reserve requirement ratios, and curbing bank lending, to slow down economic growth and control price rises. Increasing inflationary rates are due to many factors beyond the Group's control, such as rising food prices, rising production and labour costs, high lending levels, PRC and foreign governmental policy and regulations, and movements in exchange rates and interest rates. It is impossible to accurately predict future inflationary trends. If inflation rates rise beyond the Group's expectations, the costs of its business operations may become significantly higher than the Group has anticipated for the future, and the Group may be unable to pass on such higher costs to consumers in amounts that are sufficient to cover increasing operating costs. As a result, further inflationary pressures within the PRC may have an adverse effect on the Group's business, results of operations and financial condition, as well as its liquidity and profitability.

The Group's non-PRC entities may be deemed to be PRC resident enterprises under the EIT Law and may be subject to PRC taxation on the Group's worldwide income.

Prior to 1 January 2008, except for a number of preferential tax treatment schemes applicable to various enterprises, industries and locations, business enterprises in the PRC were subject to a corporate income tax rate of 33 per cent. under the relevant PRC enterprise income tax law. In March 2007, the National People's Congress of the PRC and its Standing Committee (the "**NPC**" or the "**National People's Congress**") enacted the Enterprise Income Tax Law of the PRC) (as supplemented by its implementation regulations, the "**EIT Law**"), which took effect on 1 January 2008 and was amended on 24 February 2017 and 29 December 2018. The EIT Law imposes a unified income tax rate of 25 per cent. on all domestic and foreign-invested enterprises unless they qualify under certain limited exceptions. Under the EIT Law, enterprises established under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered the PRC resident enterprises and therefore subject to the PRC enterprise income tax at the rate of 25 per cent. on their worldwide taxable income.

In April 2009, the PRC State Administration of Taxation published the "Notice on Issues Relevant to Foreign-registered Chinese-invested Holding Enterprises Determined as Resident Enterprises in Accordance with Actual Management Organisation Standard"(《國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》)(the "**Notice**"). The Notice was effective from 1 January 2008 and amended on 29 December 2017. The Notice provides, among other things, if a foreign-registered Chinese-invested company whose de facto management bodies are located within the PRC and it satisfies the following conditions, it shall be determined as a resident company and be liable to pay enterprise income tax at the rate of 25 per cent. in the PRC in respect of its global income in: (i) places within the PRC where its top managers and top management departments who are responsible for the production, management and operation of the company, perform their duties; (ii) places within the PRC where the financial decisions (such as borrowing, lending, financing and financial risk management) and the personnel decisions (such as appointment, dismissal and remuneration payment) of the company are made or approved; (iii) places within the PRC where its primary properties, accounting books, company seals, summaries archives of the board meetings and shareholders meetings are kept; and (iv) places within the PRC where one-half or more of the company's directors or top managers having rights to vote shall frequently reside. According to the Notice, a foreign-registered Chinese-invested company shall mean a company that is registered and established outside of PRC in accordance with the laws of a foreign country with companies within PRC as its major share-holding investors, as in the Group's case.

There is no assurance that the Group's non-PRC entities may be considered the PRC resident enterprises and therefore subject to the PRC enterprise income tax at the rate of 25 per cent. on the Group's worldwide income. In addition, the dividends received by the Group's non-PRC entities from the direct equity investment in PRC resident enterprises shall be subject to enterprise income tax (withholding tax) at the rate of 10 per cent. unless a preferential rate is provided by tax treaties or arrangements entered into between the country or region where the Group's non-PRC entities are established and the PRC.

Interest payable by the Group to its foreign investors and gain on the sale of the Bonds may be subject to withholding tax under PRC tax laws.

Under the EIT Law, if the Group's entities are deemed a PRC resident enterprise, the interest payable on the Bonds may be considered to be sourced within China. In that case, unless an investor in the Bonds qualifies for a preferential withholding rate under a tax treaty, the PRC income tax at the rate of 10 per cent. would be withheld at source from interest paid by the Group to investors that are "non-resident enterprises" if such "non-resident enterprise" investors do not have an establishment or place of business in China or if, despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. Any gain realised on the transfer of the Bonds by such non-resident enterprise investors may be subject to a 10 per cent. PRC income tax if the Group's entities are treated as a PRC resident enterprise and such gain is regarded as income derived from sources within China.

Furthermore, if the Group's entities are considered a PRC resident enterprise and relevant PRC tax authorities consider interest the Group's entities pay with respect to the Bonds, or any gains realised from the transfer of Bonds, to be income derived from sources within the PRC, such interest or gains earned by non-resident individuals may be subject to the PRC income tax (which, in the case of interest, may be withheld at source by the Group) at a rate of 20 per cent. It is uncertain whether the Group's entities will be considered a PRC "resident enterprise" and whether in that case interest payable to the Group's non-resident investors, or the gain the Group's non-resident investors may realise from the transfer of the Bonds, would be treated as income sourced within China and be subject to the PRC tax. In addition, according to the Ministry of Finance and the State Administration of Taxation on Overall Implementation of the Pilot Program of Replacing Business Tax with Value-added Tax ("**Circular 36**") which took effect on 1 May 2016, entities and individuals providing services within the PRC are subject to value-added tax ("**VAT**"). The services are treated as being sold within the PRC where either the service provider or the service recipient is located in the PRC. Circular 36 further clarifies that "loans" refer to the activity of lending capital for another's use and receiving interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Bonds is likely to be treated as a "loan" provided by the Bondholders to the Issuer or the Guarantor, which thus shall be regarded as the financial services for VAT purposes. In general, the income derived from the provision of loans will not be subject to VAT in the PRC if none of the Issuer, the Guarantor or the Bondholders is within the PRC. However, it is uncertain whether a foreign incorporated company which is deemed to be a PRC resident enterprise would be regarded as being within the PRC. In the event that the Issuer or the Guarantor is deemed to be a PRC resident enterprise and is deemed to be within the PRC by the PRC tax authorities, the Bondholders may be deemed to be providing financial services to the Issuer or the Guarantor within the PRC and consequently, the amount of interest on the Bonds payable by the Issuer to any non-resident Bondholders may be subject to withholding VAT at the rate of 6 per cent. plus related surcharges. If investors are required to pay the PRC income tax on the transfer of the Bonds or the interest payable on the Bonds is subject to VAT, the value of investment in the Bonds of the investors may be materially and adversely affected. In addition, if the Issuer and/or the Guarantor are considered PRC resident enterprises, it is unclear whether the Bondholders will be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

In addition, if investors are required to pay the PRC income tax on the transfer of the Bonds, the value of investment in the Bonds of the investors may be materially and adversely affected. It is unclear whether, if the Group's entities are considered a PRC "resident enterprise", holder of the Bonds might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

The anti-monopoly law may subject the Group's future acquisitions to increased scrutiny, which could affect its ability to consummate acquisitions on terms favourable to the Group.

The anti-monopoly law of China became effective on 1 August 2008. The law was enacted to guard against and cease monopolistic activities, and to safeguard and promote orderly market competition. Under the anti-monopoly law, monopolistic acts include monopolistic agreements among business operators, abuse of dominant market positions by business operators and concentration of business operators that eliminates or restricts competition or might be eliminating or restricting competition. The Regulations on the Thresholds for Reporting of Concentration of Business Operators (《國務院關於經營者集中申報標準的規定》)(the "**Reporting Threshold Regulations**"), amended on 18 September 2018, provide specific thresholds for reporting of concentration of business operators. Under the antimonopoly law and the Reporting Threshold Regulations, parties to an acquisition must report to the Ministry of Commerce in advance if in the preceding accounting year the turnover in the aggregate achieved by all the parties to the transaction exceeds RMB10,000 million worldwide or RMB2,000 million within China, and the turnover achieved by at least two of the parties exceeds RMB400 million within the PRC. However, the SAMR has the right to initiate investigation of a transaction not reaching the above-mentioned reporting thresholds if the SAMR has evidence that the transaction has or may have the effect of excluding or restricting competition.

The anti-trust scrutiny procedures and requirements set forth in the anti-monopoly law and the Reporting Threshold Regulations grant the government extensive authority of evaluation and control over the terms of acquisitions in the PRC by foreign investors, and their implementation involves significant uncertainties and risks. To the extent the Group's future acquisitions meet the threshold requirements set forth in the law and the Reporting Threshold Regulations, or are deemed by the SAMR to meet the thresholds, the Group will be subject to anti-monopoly review. The consummation of the Group's future acquisitions could therefore be much more time-consuming and complex, and any required approval processes, including obtaining approval from the SAMR, may delay or prevent the consummation of such acquisitions, and prevent the Group from attaining its business objectives.

On 3 February 2011, the General Office of the PRC State Council issued the Circular of the General Office of the State Council on the Establishment of Security Review System Regarding Mergers and Acquisitions in China by Foreign Investors 《(國務院辦公廳關於建立外國投資者並購境內企業安全審查制度的通知》) with effect in March 2011, according to which, acquisitions by foreign investors of domestic Chinese companies in the certain sectors such as military enterprises, key agricultural products, key energy and resources, key infrastructure, key transportation services, key technologies and key equipment manufacturing activities that raise national security concerns, shall be subject to security review where the foreign investor might acquire actual control of the target Chinese company through the acquisition. This regulation is unclear in certain aspects including the definition of key sectors which are expected to be further specified and therefore how it will be interpreted and implemented in practice remains to be seen. If the Group's future acquisitions fall within the security review scope, the consummation of such acquisitions could therefore be much more time-consuming and complex, and any required approval processes may delay or prevent the consummation of such acquisitions, and prevent the Group from attaining its business objectives.

The possible slowdown of the PRC economy could have an adverse effect on the Group's business results of operations and financial condition.

Substantially all of the Group's business operations are conducted in the PRC. Accordingly, the Group's results of operations, financial condition and prospects are subject to a significant degree to economic developments in the PRC.

China has been one of the world's fastest growing economies as measured by GDP in recent years. However, China may not be able to sustain such a growth rate. In order to maintain the sustainable growth of the economy, the PRC government from time to time implements various macroeconomic and other policies and measures, including but not limited to contractionary or expansionary policies and measures at times of or in anticipation of changes in the PRC's economic conditions. In an effort to stimulate the growth of the Chinese economy, the PRC government has implemented and may continue to implement various monetary, fiscal or other economic measures to expand investments in infrastructure projects, increase liquidity in the credit markets and encourage employment. However, there is no assurance that such monetary, fiscal or other economic measures will prove to be effective. If the Chinese economy experiences a slowdown or even a downturn, the Group may experience a delay or reduction in, or cancellation of, projects available to the Group and demand for the services and products the Group provides in the Group's various business segments may grow at a lower-than-expected rate or otherwise decrease. Furthermore, the Group cannot guarantee that the Group is able to make timely adjustments to the Group's business and operational strategies so as to capture and benefit from the potential business opportunities presented to the Group as a result of the changes in the economic and other policies of the PRC government. This could have an adverse effect on the Group's businesses, financial condition and results of operations. Moreover, unfavourable financing and other economic conditions for the industries that the Group serves could negatively impact the ability of the Group's customers to make capital expenditures, thereby affecting their ability to purchase the Group's products. The recurrence of adverse macroeconomic conditions may thus have an adverse effect on the Group's business, results of operations and financial condition.

Uncertainty in the PRC legal system may make it difficult for the Group to predict the outcome of any disputes that it may be involved in.

The PRC legal system is based on the PRC Constitution and consists of written laws, regulations, circulars and directives. The PRC is still in the process of developing its legal system so as to meet the needs of investors and to encourage foreign investment and uncertainties exist on whether and how existing laws and regulations will apply to certain events or circumstances.

Some of the laws and regulations, and the interpretation, implementation and enforcement of them, are subject to policy changes. There is no assurance that the introduction of new laws, changes to existing laws and the interpretation or application thereof will not have an adverse impact on the Group's business or prospects.

Further, precedents on the interpretation, implementation and enforcement of PRC laws and regulations are limited and are not binding in the law courts of the PRC. As such, the outcome of dispute resolutions may not be consistent or predictable as in the other more developed jurisdiction and it may be difficult to obtain swift or equitable enforcement of judgment in the PRC.

Facts and statistics in this Offering Circular relating to the PRC and the PRC economy may be inaccurate.

Some of the facts and statistics in this Offering Circular relating to the PRC, the PRC economy and related industry sectors are derived from various publications and obtained in communications with various agencies that the Issuer believes to be reliable. However, neither the Issuer nor the Guarantor can guarantee the quality or reliability of such source materials. In particular, none of the Issuer, the Guarantor or the Managers have PRC counsels in this transaction to verify the accuracy of disclosure in respect of the PRC in this Offering Circular. Such facts and statistics have not been independently verified by the Issuer, the Guarantor, Managers, the Trustee, the Agents or any of their respective affiliates, employees, directors, advisers, officers, agents or representatives and, therefore, no assurance can be given by the Issuer or the Guarantor as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC.

Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this Offering Circular relating to the PRC economy and related industry sectors may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case in other countries. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

The NDRC 2044 Circular and the NDRC 666 Notice are recent developments and their interpretation may involve significant uncertainty, which may adversely affect the enforceability and/or effective performance of the Bonds.

According to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (Fa Gai Wai Zi [2015] No. 2044) 《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044號), issued by the NDRC which came into effect on 14 September 2015 ("**NDRC 2044 Circular**"), domestic enterprises and their overseas controlled entities and overseas branches shall procure the registration of any debt securities or medium-to-long term loans issued or incurred outside the PRC with the NDRC prior to the issue of the debt securities or drawings under the loans, and notify the particulars of the relevant issues or drawings within 10 working days after closing. On 6 June 2019, NDRC issued the Notice on Requirements for Registration Application for Foreign Debt Issuance by Local State-owned Enterprises (Fa Gai Ban Wai Zi [2019] No.666,《關於對地方國有企業發行外債申請備案登記有關要求的通知》發改辦外資[2019]666號)("**NDRC 666 Notice**"). According to NDRC 666 Notice, the local state-owned enterprises which apply for foreign debt registration are required to be in continuous operation for no less than three years, and local government or its departments shall not in any way be reliable for payment due under foreign debts incurred by local state-owned enterprises and shall not act as guarantor for local state-owned enterprises in connection with foreign debts.

The NDRC 2044 Circular and the NDRC 666 Notice are recent developments and their interpretation may involve significant uncertainty, which may adversely affect the enforceability and/or effective performance of the Bonds. In addition, the administration of the NDRC 2044 Circular and the NDRC 666 Notice may be subject to a certain degree of executive and policy discretion by the NDRC. The NDRC 2044 Circular does not expressly state the legal consequences of non-compliance with the post-issue notification requirements under the NDRC 2044 Circular except for the potential adverse effects on the remittance of the capital collected via the issuance of the Bonds to the PRC, therefore there is no assurance that the failure to comply with the requirements under the NDRC 2044 Circular and/or the NDRC 666 Notice would not result in any adverse consequences for the Issuer, the Guarantor, the Bonds or the investors in the Bonds. There is also no assurance that the registration approval or the annual foreign debt quota with the NDRC will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the performance or validity and enforceability of the Bonds in the PRC.

Risks relating to the Bonds and the Guarantees

The Guarantor's obligations under the Guarantees are structurally subordinated to all existing and future liabilities and obligations of each of its subsidiaries.

The Guarantor is an investment holding company and operates through its subsidiaries and direct and indirect investments in associates and joint ventures. As a result, the Guarantor's assets consist, to a significant extent, of shareholdings in its subsidiaries, associates and joint ventures. Claims of creditors of such companies will have priority as to the assets of such companies over the Guarantor and its creditors, including holders of the Bonds seeking to enforce the Guarantees. The Guarantor's obligations under the Guarantees will not be guaranteed by any of the Group's subsidiaries. The Bonds do not contain any restrictions on the ability of the Group's subsidiaries (other than the Issuer) to incur additional unsecured indebtedness.

The Guarantor's ability to make payments on the Guarantees depends upon receipt of distributions from the Guarantor's subsidiaries, associates and joint ventures.

The Guarantor is primarily an investment holding company and its ability to make payments under the Guarantees and to make payments to the Issuer under the loan arrangement to fund payments on the Bonds depends upon the receipt of dividends, distributions, interest or advances from its wholly-owned or partly-owned subsidiaries, associates and joint ventures. The ability of the Guarantor's subsidiaries, associates and joint ventures to pay dividends may be subject to applicable laws and regulations. The outstanding indebtedness of the Guarantor's subsidiaries may contain covenants restricting the ability of such subsidiaries to pay dividends in certain circumstances for so long as such indebtedness remains outstanding. Moreover, the Guarantor's percentage interests in its subsidiaries, associates and joint ventures could be reduced in the future.

The Issuer is a special purpose financing entity with no operations of its own.

The Issuer is a special purpose financing entity with limited assets and has no business operations other than issuing the Bonds. The proceeds from the issuance of the Bonds will be on-lent by the Issuer to the Guarantor for refinancing existing offshore indebtedness. The Issuer's ability to make payments on the Bonds is dependent directly on payments from the Group.

The Bonds may not be a suitable investment for all investors.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds and the Guarantees, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's home currency;

- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Bonds unless it has the expertise (either alone or with a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of the Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment laws and regulations, or the review and regulation of such by authorities, may restrict investment activities of certain investors.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Bonds are legal investments for it, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

The Issuer and the Guarantor are not prohibited from issuing further debt or guaranteeing further debt which may rank pari passu with the Bonds or the Guarantees.

There is no restriction on the amount of debt securities that the Issuer may issue or the Guarantor may guarantee that rank *pari passu* with the Bonds or the Guarantees (as the case may be). The issue of any such debt securities or the provision of any such guarantee may reduce the amount recoverable by investors under the Bonds or the Guarantees upon the Issuer's or the Guarantor's bankruptcy, winding-up or liquidation.

Changes in English law subsequent to the issuance of the Bonds may impact the Terms and Conditions, and no assurance can be given to the Bondholders.

The Terms and Conditions are based on English law and administrative practices in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular, nor can any assurance be given as to whether any such change could adversely affect the Issuer's or the Guarantor's ability to make payments under the Bonds or the Guarantees.

Credit ratings may not reflect all risks.

The Bonds are expected to be rated "Baa1" by Moody's and "BBB+" by S&P. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be suspended, revised or withdrawn by the rating agency at any time. Neither the Issuer nor the Guarantor is obligated to inform the holders of the Bonds if the ratings or outlook are lowered or withdrawn. A reduction or withdrawal of the ratings may adversely affect the market price and liquidity of the Bonds and the Company's ability to access the debt capital markets. In addition, the ratings may not reflect the potential impact of all risks related to the transaction structure, the additional factors discussed in this section "*Risk Factors*" or any other factors that may affect the value of the Bonds.

The Issuer may not be able to repurchase the Bonds upon the occurrence of a Change of Control Triggering Event.

The Issuer must offer to purchase the Bonds, upon the occurrence of a Change of Control Triggering Event, at a purchase price equal to 101 per cent. of the principal amount plus accrued interest up to, but excluding, the Series 1 Bonds Change of Control Put Date or the Series 2 Bonds Change of Control Put Date, as the case may be. See "*Terms and Conditions of the Series 1 Bonds – Redemption and Purchase – Redemption for Change of Control Triggering Event*" and "*Terms and Conditions of the Series 2 Bonds – Redemption and Purchase – Redemption for Change of Control Triggering Event*" in this Offering Circular.

The source of funds for any such purchase would be available cash or third-party financing, but there can be no guarantee that the Issuer will have sufficient available funds at the time of the occurrence of any Change of Control to make purchases of outstanding Bonds.

The Bonds may be redeemed at the Issuer's option on the occurrence of certain events.

The Issuer has the right to redeem the Bonds, in whole but not in part, at their principal amount together with any unpaid accrued interest thereon to the date fixed for redemption if it (or, if the Guarantees was called, the Guarantor) has or will become obligated to pay additional amounts as a result of any change or amendment to the laws or regulations of the British Virgin Islands or Hong Kong or the PRC as further described in the Terms and Conditions. See "*Terms and Conditions of the Series 1 Bonds – Redemption and Purchase – Redemption for Tax Reasons*" and "*Terms and Conditions of the Series 2 Bonds – Redemption and Purchase – Redemption for Tax Reasons*" in this Offering Circular.

The Issuer also has the right to redeem the Bonds at its discretion, in whole but not in part, at a redemption amount equal to (in the case of the Series 1 Bonds) the Series 1 Bonds Make-Whole Price or (in the case of the Series 2 Bonds) the Series 2 Bonds Make-Whole Price. See "*Terms and Conditions of the Series 1 Bonds – Redemption and Purchase – Redemption at the Option of the Issuer*" and "*Terms and Conditions of the Series 2 Bonds – Redemption and Purchase – Redemption at the Option of the Issuer*" in this Offering Circular.

The date that the Issuer elects to redeem the Bonds may not accord with the preference of individual holders, which may be disadvantageous to holders in light of market conditions or the individual circumstances of the holder of the Bonds. Additionally, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective yield at the same level as that of the Bonds.

The Issuer will follow the applicable corporate disclosure standards for debt securities listed on the Hong Kong Stock Exchange, which standards may be different from those applicable to companies in certain other countries.

The Issuer will be subject to reporting obligations in respect of the Bonds to be listed on the Hong Kong Stock Exchange. The disclosure standards imposed by the Hong Kong Stock Exchange may be different from those imposed by securities exchanges in other countries or regions. As a result, the level of information that is available may not correspond to what investors in the Bonds are accustomed to.

The Issuer may issue additional Bonds in the future.

The Issuer may, from time to time, and without prior consultation of the Bondholders, create and issue further securities having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them and the timing for complying with the requirements set out in the the Terms and Conditions of the Series 1 Bonds (in the case of the Series 1 Bonds) and the Terms and Conditions of the Series 2 Bonds (in the case of the Series 2 Bonds) in relation to the NDRC Post-issue Filing) or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Bonds.

Modifications and waivers may be made in respect of the Terms and Conditions and the Trust Deeds by the Trustee or less than all of the holders of the Bonds, and decisions may be made on behalf of all holders of the Bonds that may be adverse to the interests of the individual holders of the Bonds.

The Terms and Conditions contain provisions for calling meetings of the holders of the Bonds to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including those Bondholders who did not attend and vote at the relevant meeting and those Bondholders who voted in a manner contrary to the majority. These is a risk that the decision of the majority of holders of the Bonds may be adverse to the interests of the individual holders of the Bonds.

The Terms and Conditions also provide that the Trustee may, without the consent of the holders, agree to any modification (except as mentioned in the Trust Deeds) of the Trust Deeds, the Terms and Conditions and/or the Agency Agreements which in the opinion of the Trustee will not be materially prejudicial to the interests of the holders of the Bonds and to any modification of the Trust Deeds, the

Terms and Conditions and/or the Agency Agreements which in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error or to comply with any mandatory provision of applicable law.

In addition, the Trust Deeds contain provisions permitting (but not obliging) the Trustee to agree, subject to such amendment of the Trust Deeds and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of any other company in place of the Issuer or the Guarantor, or of any previous substituted company, as principal debtor or guarantor under the Trust Deeds and the Bonds.

Furthermore, the Trustee may, without the consent of the holders of the Bonds, authorise or waive any proposed breach or breach of the Bonds, the Trust Deeds or the Agency Agreements (other than a proposed breach, or a breach relating to the subject to certain reserved matters) if, in the opinion of the Trustee, the interest of the holders of the Bonds will not be materially prejudiced thereby.

The Trustee may request the Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, including, without limitation, giving of notice to the Issuer and the Guarantor pursuant to Condition 9 of the Terms and Conditions and taking actions and/or steps and/or instituting proceedings pursuant to Condition 13 of the Terms and Conditions, the Trustee may, at its sole discretion, request the Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of the Bondholders. The Trustee shall not be obliged to take any such actions and/or such steps and/or instituting any such proceedings if not first indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions and/or such steps and/or institute proceedings, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deeds or the Terms and Conditions and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable laws and regulations, it will be for the holders of the Bonds to take such actions and/or such steps and/or instituting any such proceedings directly.

Each series of the Bonds will be evidenced by a Global Certificate and holders of a beneficial interest in a Global Certificate must rely on the procedures of the relevant Clearing System(s).

Each series of the Bonds will be evidenced by a Global Certificate which will be deposited with a common depositary for Euroclear and Clearstream (a "**Clearing System**"). Except in the circumstances described in such Global Certificate, investors will not be entitled to receive definitive Bonds. The Clearing System(s) will maintain records of the beneficial interests in a Global Certificate. For so long as the Bonds are evidenced by a Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

For so long as each series of the Bonds are evidenced by a Global Certificate, the Issuer, or failing which, the Guarantor will discharge its payment obligations under the Bonds and the Guarantees by making payments to the Clearing System for distribution to their respective account holders.

A holder of a beneficial interest in a Global Certificate must rely on the procedures of the Clearing System(s) to receive payments under the Bonds and the Guarantees. Neither the Issuer nor the Guarantor has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in a Global Certificate.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the series of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by the Clearing System(s) to appoint appropriate proxies. Similarly, holders of beneficial interests in a Global Certificate will not have a direct right under such Global Certificate to take enforcement action against the Issuer or the Guarantor in the event of a default under the Bonds but will have to rely upon their rights under the Trust Deeds.

Integral multiples of less than the specified denomination may result in illiquidity in the Bonds.

The denomination of the Bonds is U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Therefore, it is possible that the Bonds may be traded in amounts in excess of U.S.$200,000 that are not integral multiples of U.S.$200,000. In such a case, a holder who, as a result of trading such amounts, holds a principal amount of less than U.S.$200,000 will not receive a definitive certificate in respect of such holding of either series of the Bonds (should definitive certificates be printed) and would need to purchase a principal amount of the Bonds such that it holds an amount equal to one or more denominations. If definitive certificates are issued, holders should be aware that Bonds with aggregate principal amounts that are not an integral multiple of U.S.$200,000 may be illiquid and difficult to trade.

An active trading market for the Bonds may not develop.

The Bonds are a new issue of securities for which there is currently no trading market. Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds. The Issuer cannot assure investors as to the liquidity of the Bonds, that an active trading market will develop, or that the Issuer will be able to maintain a listing of the Bonds on the Hong Kong Stock Exchange. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial price depending on many factors, including prevailing interest rates, the Group's operating and financial results and the market for similar securities. The Managers are not obligated to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Managers. No assurance can be given that an active trading market for the Bonds will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Bonds or the price at which holds will be able to sell their Bonds.

Investment in the Bonds may subject investors to foreign exchange risks.

The Bonds are denominated and payable in U.S. dollars. If an investor measures its investment returns by reference to a currency other than U.S. dollars, an investment in the Bonds entails foreign exchange related risks, including possible significant changes in the value of the U.S. dollars relative to the currency by reference to which an investor measures its investment returns, because of, among other things, economic, political and other factors over which the Issuer and the Guarantor have no control. Depreciation of the U.S. dollars against such currency could cause a decrease in the effective yield of the Bonds below their stated coupon rates and could result in a loss when the return on the Bonds is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign exchange gains resulting from any investment in the Bonds. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Bondholders may suffer erosion in the return on their investment due to inflation.

Bondholders may suffer erosion in the return on their investments due to inflation. Bondholders would have an anticipated rate of return on the purchase of the Bonds based on expected inflation rates. An unexpected rise in inflation could reduce the actual returns to such holders.

Fluctuations in interest rates may adversely affect the value of the Bonds.

Investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

The liquidity and price of the Bonds following the offering may be volatile.

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in the Group's revenue, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, prevailing interest rates and dividend rates of comparable securities, the market for similar securities and general economic conditions nationally or internationally could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the trading volume and price of the Bonds.

The trading market for the Bonds may be volatile and may be adversely impacted by many events.

The market for the Bonds is expected to be influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates in the PRC, Hong Kong, the United States, Europe and other industrialised countries. There can be no assurance that events in the PRC, Hong Kong, the United States, Europe or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of the Bonds or that economic and market conditions will not have any other adverse effect.

The ability of the Issuer and/or the Guarantor to make payments in respect of the Bonds and the Guarantees may depend on the performance of contractual obligations by other relevant parties.

The ability of the Issuer and/or the Guarantor to make payments in respect of the Bonds and the Guarantees may depend upon the due performance by the other parties to the transaction documents of the obligations thereunder including the performance by the Principal Paying Agent, the Transfer Agent and/or the Registrar of their respective obligations. Whilst the non-performance of any relevant parties will not relieve the Issuer and/or the Guarantor of its obligations to make payments in respect of the Bonds and the Guarantees, the Issuer and/or the Guarantor, may not, in such circumstances, be able to fulfil its obligations to the Bondholders.

TERMS AND CONDITIONS OF THE SERIES 1 BONDS

The following, subject to amendment and other than the words in italics, is the text of the terms and conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of U.S.$300,000,000 2.000 per cent. guaranteed bonds due 2026 (the "**Bonds**", which term shall include, unless the context requires otherwise, any additional Bonds issued in accordance with Condition 15 and consolidated and forming a single series therewith) was authorised by a resolution of the board of directors of Talent Yield International Limited(傑益國際有限公司)(the "**Issuer**") passed on 26 April 2021. The Bonds are guaranteed by Beijing Enterprises Holdings Limited (the "**Guarantor**"). The giving of the Guarantee (as defined in Condition 3(b)) was authorised by a resolution of the board of directors of the Guarantor on 26 April 2021. The Bonds are constituted by a Trust Deed (as amended and/or supplemented from time to time, the "**Trust Deed**") dated on or about 6 May 2021 (the "**Issue Date**") between the Issuer, the Guarantor and The Bank of New York Mellon, London Branch (the "**Trustee**" which expression shall, where the context so permits, include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds. These terms and conditions (these "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. For so long as any Bond remains outstanding, copies of the Trust Deed and of the Agency Agreement (as amended and/or supplemented from time to time, the "**Agency Agreement**") dated on or about 6 May 2021 relating to the Bonds between the Issuer, the Guarantor, the Trustee, The Bank of New York Mellon SA/NV, Dublin Branch as registrar (the "**Registrar**", which expression shall include any successor registrar appointed from time to time in connection with the Bonds) and as transfer agent (the "**Transfer Agent**", which expression shall include any successor transfer agent appointed from time to time in connection with the Bonds), The Bank of New York Mellon, London Branch as initial principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor principal paying agent appointed from time to time in connection with the Bonds) and any other agents named in it, are available for inspection at all reasonable times during usual business hours (being between 9:00 a.m. and 3:00 p.m.) by the Bondholders at the principal office of the Trustee (being at the Issue Date at One Canada Square, London E14 5AL, United Kingdom) and at the specified office of the Principal Paying Agent following prior written request and proof of holding and identity to the satisfaction of the Trustee or, as the case may be, the Principal Paying Agent. The "**Agents**" means the Principal Paying Agent, the Registrar, the Transfer Agent, their respective successors and any other agent or agents appointed from time to time with respect to the Bonds. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those applicable to them of the Agency Agreement.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed.

1 FORM, SPECIFIED DENOMINATION AND TITLE

The Bonds are issued in the specified denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, a "**Specified Denomination**").

The Bonds are evidenced by registered certificates ("**Certificates**") and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Bonds by the same holder.

Title to the Bonds shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Bond shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, "**Bondholder**" and (in relation to any Bond) "**holder**" mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first-named thereof).

*Upon issue, the Bonds will be represented by a global certificate (the "**Global Certificate**") registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank SA/NV and Clearstream Banking S.A. These Conditions are modified by certain provisions contained in the Global Certificate. See "Summary of Provisions relating to the Bonds in Global Form".*

Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds represented by the Global Certificate will not be entitled to receive definitive certificates in respect of their individual holdings of the Bonds. The Bonds are not issuable in bearer form.

2 TRANSFERS OF BONDS AND ISSUE OF NEW CERTIFICATES

(a) **Transfer**: A holding of Bonds may, subject to the Agency Agreement, Condition 2(e) and Condition 2(f), be transferred in whole or in part in the Specified Denomination upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s), duly completed and executed and any other evidence as the Registrar or the relevant Transfer Agent may require. In the case of a transfer of part only of a holding of Bonds evidenced by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor (which shall be in the Specified Denomination). In the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

(b) **Partial Redemption**: In the case of a partial redemption of a holding of Bonds represented by a single Certificate, a new Certificate shall be issued to the holder in respect of the balance of the holding not redeemed. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent.

(c) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Conditions 2(a) and 2(b) shall be available for delivery within seven business days of receipt by the Registrar or, as the case may be, any Transfer Agent, of a duly completed and signed form of transfer or Put Exercise Notice (as defined in Condition 6(c) and surrender of the existing Certificate(s)). The form of transfer is available at the specified offices of each Transfer Agent. Delivery of the new Certificate(s) shall be made at the specified office of any Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Put Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or Put Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate (but free of charge to the holder and at the Issuer's expense) to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify.

In this Condition 2(c), "**business day**" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks generally are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) **Transfer Free of Charge**: Certificates, on transfer or partial redemption, shall be issued and registered without charge to the relevant Bondholder by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon (i) payment by the relevant Bondholder of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require), (ii) the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application and (iii) the Registrar or the relevant Transfer Agent (as the case may be) being satisfied that the Regulations (as defined in Condition 2(f)) have been complied with.

(e) **Closed Periods**: No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Bond, (ii) after a Put Exercise Notice has been deposited in respect of such Bonds pursuant to Condition 6(c), or (iii) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(a)(ii)).

(f) **Regulations**: All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer and registration of Bonds, the initial form of which is scheduled to the Agency Agreement (the "**Regulations**"). The Regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, or by the Registrar, with the prior written approval of the Trustee. A copy of the current Regulations will be made available (free of charge to the Bondholder and at the Issuer's, failing whom the Guarantor's, expense) by the Registrar to any Bondholder upon written request and proof of holding and identity satisfactory to the Registrar and is available at the specified office of the Transfer Agent following prior written request and proof of holding and identity satisfactory to the Transfer Agent.

3 STATUS AND GUARANTEE

(a) **Status**: The Bonds constitute direct, unsubordinated, unconditional and (subject to Condition 4(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all the Issuer's other present and future unsecured and unsubordinated obligations.

(b) **Guarantee**: The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. The Guarantor's obligations in respect of the Bonds and the Trust Deed (the "**Guarantee**") are contained in the Trust Deed. The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

4 NEGATIVE PLEDGE AND OTHER COVENANTS

(a) **Negative Pledge**: So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer and the Guarantor will not, and each of the Issuer and the Guarantor shall ensure that none of their respective Subsidiaries will create, or have outstanding, any Lien, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without (a) at the same time or prior thereto securing the Bonds and/or the Guarantee equally and rateably therewith or (b) providing such other security for the Bonds and/or the Guarantee as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Bondholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

(b) **Other Covenants**: For so long as the Bonds are outstanding, the Issuer shall remain a subsidiary wholly owned and controlled by the Guarantor, and the Issuer will conduct no business or any other activities other than the offer, sale or issuance of debt securities (including further securities issued pursuant to Condition 15), incurrence of indebtedness and investing in or lending the proceeds thereof to the Guarantor or a company controlled by the Guarantor and any other activities in connection therewith.

(c) **Financial Statements**: So long as any Bond remains outstanding (as defined in the Trust Deed):

(i) the Guarantor shall send to the Trustee as soon as practicable and in any event not more than 180 days after the end of each financial year, two copies of the audited annual financial statements (on a consolidated basis) of the Guarantor and if such statements shall be in the Chinese language, together with an English translation of the same translated by an internationally recognised firm of accountants or a professional translation service provider, and a certificate signed by an Authorised Signatory of the Guarantor certifying that such translation is complete and accurate; and

(ii) the Guarantor shall send to the Trustee as soon as practicable and in any event not more than 90 days after the end of each financial period, two copies of the semi-annual statements prepared on a basis consistent with the audited financial statements of the Guarantor and if such statements shall be in the Chinese language, together with an English translation of the same and a certificate signed by an Authorised Signatory of the Guarantor certifying that such translation is complete and accurate.

(d) **Notification to NDRC**: For the benefit of the Bonds, the Guarantor undertakes to file or cause to be filed with the NDRC the requisite information and documents within the prescribed time frame after the Issue Date in accordance with the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules, regulations, certificates, circulars or notices as issued by the NDRC from time to time (the "**NDRC Post-issue Filing**"). The Guarantor shall within ten PRC Business Days after submission of such NDRC Post-issue Filing (i) provide the Trustee with a certificate substantially in the form set out in the Trust Deed signed by an Authorised Signatory of the Guarantor confirming the submission of the NDRC Post-issue Filing, together with a copy of any document(s) (if any) evidencing due filing with the NDRC, and certifying such document(s) (if any) to be a true copy of the original and (ii) procure that the Issuer gives notice to the Bondholders in accordance with Condition 16 of the same. The Trustee shall have no obligation to monitor or assist with or ensure the submission of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issue Filing or to give notice to the Bondholders confirming the submission of the NDRC Post-issue Filing, and shall not be liable to the Bondholders or any other person for not doing so.

In these Conditions:

"**Lien**" means mortgage, charge, pledge, lien or other form of encumbrance or security interest;

"**NDRC**" means the National Development and Reform Commission of the PRC or its local counterparts;

"**PRC**" means the People's Republic of China, and for the purpose of these Conditions only, excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan;

"**PRC Business Day**" means a day (other than a Saturday, Sunday or public holiday) on which commercial banks are generally open for business in Beijing;

"**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are commonly quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market; and

"**Subsidiary**" means, in relation to the Issuer or the Guarantor, any company (i) in which the Issuer or as the case may be, the Guarantor holds a majority of the voting rights or (ii) of which the Issuer or, as the case may be, the Guarantor is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer or as the case may be, the Guarantor is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer or as the case may be, the Guarantor.

5 INTEREST

The Bonds bear interest on their outstanding principal amount from and including 6 May 2021 at the rate of 2.000 per cent. per annum, payable semi-annually in arrear in equal instalments of U.S.$10.000 per Calculation Amount (as defined below) on 6 May and 6 November in each year (each an "**Interest Payment Date**"), commencing on 6 November 2021.

Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Bond, payment of principal or premium (if any) is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (b) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including 6 May 2021 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Bond shall be calculated per U.S.$1,000 in principal amount of the Bonds (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall (save as provided above in relation to equal instalments) be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6 REDEMPTION AND PURCHASE

(a) **Final Redemption**: Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 6 May 2026 (the "**Maturity Date**"). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

(b) **Redemption for Tax Reasons**: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice in accordance with Condition 16 to the Bondholders and in writing to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), at their principal amount, together with any interest accrued up to but excluding the date fixed for redemption, if the Issuer (or, if the Guarantee was called, the Guarantor) satisfies the Trustee immediately prior to the giving of such notice that (i) it has or will become obliged to pay Additional Tax Amounts (as defined in Condition 8) as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or Hong Kong or the PRC or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 28 April 2021, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due. Prior to the giving of any notice of redemption pursuant to this Condition 6(b), the Issuer (or the Guarantor, as the case may be) shall deliver to the Trustee (A) a certificate signed by two directors of the Issuer who are also Authorised Signatories of the Issuer (or two directors of the Guarantor who are also Authorised Signatories of the Guarantor, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment. The Trustee shall be entitled to (but shall not be obliged to) accept and rely upon such certificate and opinion without further investigation or query and without liability to the Bondholders or any other person, as sufficient evidence of the satisfaction of the condition precedent set out in (i) and (ii) above of this Condition 6(b), in which event the same shall be conclusive and binding on the Bondholders.

(c) **Redemption for Change of Control Triggering Event**: At any time following the occurrence of a Change of Control Triggering Event, the holder of a Bond will have the right, at such holder's option, to require the Issuer to redeem all, or some only, of such holder's Bonds on the Change of Control Put Date at 101 per cent. of their principal amount, together with accrued interest up to, but excluding, the Change of Control Put Date. To exercise such right, the holder of the relevant Bond must deposit at the specified office of the Principal Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of the Principal Paying Agent as provided for in the Agency Agreement (a "**Put Exercise Notice**"), together with the Certificate evidencing the Bonds to be redeemed, by not later than 30 days following a Change of Control Triggering Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer or the Guarantor in accordance with Condition 16. The "**Change of Control Put Date**" shall be the fourteenth day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds, which are the subject of Put Exercise Notices delivered as aforesaid on the Change of Control Put Date.

The Issuer, failing whom the Guarantor, shall give notice to Bondholders (in accordance with Condition 16) and in writing to the Trustee and the Principal Paying Agent by not later than 14 days after the first day on which it becomes aware of the occurrence of a Change of Control Triggering Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 6(c).

The Trustee and the Agents shall not be required to take any steps to ascertain whether a Change of Control Triggering Event has occurred and shall not be responsible for or liable to Bondholders, the Issuer or the Guarantor for any loss arising from any failure to do so.

So long as the Bonds are represented by the Global Certificate, a right of a holder to redemption of the Bonds following the occurrence of a Change of Control Triggering Event will be effected in accordance with the rules of the relevant clearing systems.

For the purposes of these Conditions:

a "**Change of Control**" occurs when:

(i) the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality does not, directly or indirectly, through Beijing Enterprises Group Company Limited or other companies under its supervision and control, hold at least 50.1 per cent. of the Guarantor's issued and outstanding capital stock or does not control the Guarantor;

(ii) any Person or Persons acting together directly or indirectly acquires Control of the Guarantor where such Person or Persons does not or do not have, and would not be deemed to have, Control of the Guarantor on 6 May 2021;

(iii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of the Guarantor's assets to any other Person or Persons, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Guarantor or the successor entity; or

(iv) one or more Persons (other than any Person referred to in sub-paragraph (iii) above) acquires the legal or beneficial ownership of all or substantially all of the Guarantor's issued share capital;

"**Change of Control Triggering Event**" means a Change of Control, provided that, in the event that the Bonds are, on the Rating Date, rated Investment Grade by two or more Rating Agencies, a Change of Control Triggering Event shall mean the occurrence of both a Change of Control and a Rating Decline;

"**Control**" or "**control**", with respect to any Person, means the acquisition or control of more than 50 per cent. of the voting rights of the issued share capital of the Person or the right to appoint and/or remove all or the majority of the members of the Person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

"**Investment Grade**" means a rating of "AAA", "AA", "A" or "BBB", as modified by a "+"or "-"indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns; a rating of "Aaa", "Aa", "A" or "Baa", as modified by a "1", "2"or "3" indication, or an equivalent rating representing one of the four highest rating categories, by Moody's, or any of its successors or assigns; a rating of "BBB-"or better by Fitch, or any of its successors or assigns; or the equivalent ratings of any internationally recognised rating agency or agencies, as the case may be, which shall have been designated by the Guarantor as having been substituted for S&P, Moody's, or Fitch or any combination thereof, as the case may be;

a "**Person**" or "**Persons**", as used in this Condition 6(c), means any individual, corporation, firm, limited liability company, partnership, joint venture, undertaking, association, joint stock company, trust, unincorporated organisation, state, government or any agency or political subdivision thereof or any other entity (in each case whether or not being a separate legal entity);

"**Rating Agencies**" means (1) Standard & Poor Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors ("**S&P**"); (2) Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors ("**Moody's**"); (3) Fitch Inc., a subsidiary of Fimalac, S.A., and its successors ("**Fitch**"); and (4) if one or more of S&P, Moody's or Fitch shall not make a rating of the Bonds publicly available, a United States nationally recognised securities rating agency or agencies, as the case may be, selected by the Guarantor, which shall be substituted for S&P, Moody's or Fitch or any combination thereof, as the case may be;

"**Rating Date**" means, in connection with a Change of Control Triggering Event, that date which is 60 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Guarantor or any other Person or Persons to effect a Change of Control; and

"**Rating Decline**" means, in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Guarantor or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Bonds is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below:

(a) in the event the Bonds are (x) on the Rating Date (i) rated by three Ratings Agencies and (ii) rated Investment Grade by each such Rating Agency, and (y) cease to be rated Investment Grade by at least two of such Rating Agencies; or

(b) in the event the Bonds are (x) on the Rating Date (i) rated by two but not more Ratings Agencies and (ii) rated Investment Grade by each such Rating Agency, and (y) cease to be rated Investment Grade by both such Rating Agencies.

(d) **Redemption at the Option of the Issuer**: The Issuer may, at any time upon giving not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Bondholders and in writing to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), redeem the Bonds, in whole but not in part, at:

(A) a Make-Whole Price, at any time before 6 April 2026 (being the date that falls one month prior to the Maturity Date); or

(B) their principal amount, at any time on or after 6 April 2026 (being the date that falls one month prior to the Maturity Date),

in each case, together with accrued and unpaid interest, if any, to but excluding, the redemption date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice.

In this Condition 6(d):

"**Comparable Treasury Issue**" means the United States Treasury security selected by the Independent Investment Bank as having a maturity comparable to the remaining term of the Bonds from the Optional Redemption Date to the Maturity Date, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to the Maturity Date;

"**Comparable Treasury Price**" means, with respect to any Optional Redemption Date, the average of three, or such lesser number as is obtained by the Independent Investment Bank, Reference Treasury Dealer Quotations for the Optional Redemption Date;

"**Independent Investment Bank**" means any one of the Reference Treasury Dealers jointly selected by the Issuer and the Guarantor (at the expense of the Issuer and the Guarantor) in good faith and notified in writing to the Bondholders and the Trustee by the Issuer or the Guarantor for the purposes of performing any of the functions expressed to be performed by it under these Conditions;

"**Make-Whole Price**" means, in respect of each Bond, (a) the principal amount of such Bond or, if this is higher, (b) the amount equal to the sum of the present value of the principal amount of such Bond, together with the present values of the scheduled interest payments from the Optional Redemption Date to the Maturity Date in each case, discounted to the Optional Redemption Date on a semi-annual compounded basis at the adjusted U.S. Treasury Rate plus 0.20 per cent., all as determined by the Independent Investment Bank;

"**Reference Treasury Dealer**" means each of the three nationally recognised firms selected by the Independent Investment Bank that are primary U.S. Government securities dealers;

"**Reference Treasury Dealer Quotations**" means with respect to each Reference Treasury Dealer and any Optional Redemption Date, the average, as determined by the Independent Investment Bank, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Independent Investment Bank by such Reference Treasury Dealer at 5:00 p.m., New York City time on the fourth business day immediately preceding such Optional Redemption Date; and

"**U.S. Treasury Rate**" means either (i) the rate per annum equal to the yield, that represents the average of the daily yields for the week immediately preceding the fourth business day prior to the Optional Redemption Date, derived from the most recently published statistical release designated "H.15" or any successor publication that is published by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities" for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Maturity Date, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the U.S. Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the fourth business day prior to the relevant date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Optional Redemption Date, in each case calculated on the fourth business day immediately preceding the Optional Redemption Date.

(e) **Notice of Redemption**: All Bonds in respect of which any notice of redemption is given under this Condition 6 shall be redeemed on the date specified in such notice in accordance with this Condition 6. If there is more than one notice of redemption given in respect of any Bond (which shall include any notice given by the Issuer pursuant to Condition 6(b) or Condition 6(d) and any Put Exercise Notice given by a Bondholder pursuant to Condition 6(c)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail.

Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under any notice of redemption or Put Exercise Notice and none of them shall be liable to the Bondholders, the Issuer, the Guarantor or any other person for not doing so.

(f) **Purchase**: The Guarantor, the Issuer and their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Guarantor, the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for certain purposes pursuant to the Trust Deed, including but not limited to calculating quorums at meetings of the Bondholders or for the purposes of Conditions 9, 12(a) and 13.

(g) **Cancellation**: All Certificates representing Bonds purchased by or on behalf of the Issuer, the Guarantor or their respective Subsidiaries shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith. The Bonds represented by any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Bonds shall be discharged.

7 PAYMENTS

(a) **Method of Payment**:

(i) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Bonds evidenced by such Certificates) in the manner provided in Condition 7(a)(ii) below.

(ii) Interest on each Bond shall be paid to the person shown on the Register at the close of business on the fifth business day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Bond shall be made in U.S. dollars by transfer to the registered account of the holder of such Bond. For the purposes of this Condition 7(a), a holder's "**registered account**" means the U.S. dollar-denominated account maintained by or on behalf of it with a bank, details of which appear on the Register at the close of business on the Record Date.

(iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of premium (if any) or interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of premium (if any) or interest so paid.

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear Bank SA/NV, Clearstream Banking S.A. or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

(b) **Payments subject to Fiscal Laws**: All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Bondholders in respect of such payments.

(c) **Payment Initiation**: Payment instructions (for value on the due date or, if that is not a business day, for value the first following day which is a business day) will be initiated, on the due date for payment (or, if that date is not a business day, on the first following day which is a business day), or, in the case of payments of principal and premium (if any) where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

(d) **Appointment of Agents**: The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Principal Paying Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer and the Guarantor reserve the right at any time with the prior approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, any Transfer Agent or any of the other Agents and to appoint additional or other Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent and (iv) such other agents as may be required by any other stock exchange on which the Bonds may be listed.

Notice of any such termination or appointment or any change of any specified office of an Agent shall promptly be given by the Issuer to the Bondholders in accordance with Condition 16.

(e) **Delay in Payment**: Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a business day or if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so).

(f) **Non-Payment Business Days**: If any date for payment in respect of any Bond is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**business day**" means a day (other than a Saturday, a Sunday or a public holiday) on which commercial banks and foreign exchange markets are open for business and settlement of U.S. dollars payments in New York City and in the place in which the specified office of the Principal Paying Agent is located, Hong Kong and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

8 TAXATION

All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, Hong Kong or the PRC or, in each case, any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer or the Guarantor (as the case may be) as a result of the Issuer or the Guarantor (as the case may be) being deemed by PRC tax authorities to be a PRC tax resident at the rate of up to and including the aggregate rate applicable on 28 April 2021 (the "**Applicable Rate**"), the Issuer, or as the case may be, the Guarantor will increase the amounts paid by it to the extent required, so that the net amounts received by the Bondholders equals the amounts which would otherwise have been received by them had no such withholding or deduction been required.

If the Issuer or the Guarantor (as the case may be) is required to make a deduction or withholding (i) by or within Hong Kong or (ii) by or within the British Virgin Islands or (iii) by or within the PRC in excess of the Applicable Rate, the Issuer, or as the case may be, the Guarantor shall pay such additional amounts ("**Additional Tax Amounts**") as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Bond:

(a) **Other connection**: held by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the British Virgin Islands or Hong Kong or the PRC other than the mere holding of the Bond; or

(b) **Surrender more than 30 days after the Relevant Date**: in respect of which the Certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Tax Amounts on surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days.

"**Relevant Date**" in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Certificate representing such Bond being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

References in these Conditions to principal, premium and interest will be deemed also to refer to any Additional Tax Amounts which may be payable under this Condition 8 or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 8 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, the Guarantor, any Bondholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Bonds without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

9 EVENTS OF DEFAULT

If any of the following events (each an "**Event of Default**") occurs and is continuing, the Trustee at its discretion may, and if so requested in writing by holders of at least 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (provided in any such case that the Trustee shall have been indemnified and/or secured, and/or prefunded to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest:

(a) **Non-Payment**: failure by the Issuer and the Guarantor to pay principal or premium in respect of any such Bond by the due date for such payment, or failure by the Issuer and the Guarantor to pay interest on any such Bond within 14 days after the due date for such payment; or

(b) **Breach of Other Obligations**: the Issuer or the Guarantor defaults in the performance of or breaches any covenant or agreement in the Bonds or under the Trust Deed or the Agency Agreement (other than a default specified in Condition 9(a) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee; or

(c) **Cross-Default**: there occurs with respect to any indebtedness of, or guaranteed by, the Issuer, the Guarantor or any of the Guarantor's Subsidiaries having an outstanding principal amount of U.S.$40,000,000 (or the Dollar Equivalent thereof) or more in the aggregate for all such indebtedness of all such Persons, whether such indebtedness now exists or shall hereafter be created, (A) an event of default that has caused the holder thereof to declare such indebtedness to be due and payable prior to its express maturity and/or (B) the failure to make a payment of principal, interest or premium when due; or

(d) **Judgments**: one or more final judgments or orders for the payment of money are rendered against the Issuer, the Guarantor or any of the Guarantor's Subsidiaries and are not paid or discharged, and there is a period of 90 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed U.S.$60,000,000 (or the Dollar Equivalent thereof) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect; or

(e) **Insolvency**: the Issuer, the Guarantor or any of the Guarantor's Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts (whether actual or contingent), stops, suspends or threatens to stop or suspend, payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries; or an administrator or liquidator of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries or the whole or any material part of the assets and turnover of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries is appointed (or an application for any such appointment is made); or

(f) **Winding-up**: an order is made or an effective resolution passed for the termination, winding-up, dissolution, judicial management or administration of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries, or the Issuer, the Guarantor or any of the Guarantor's Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except (A) for the purpose of, and followed by, a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the Bondholders or (B) in the case of a Subsidiary of the Guarantor, whereby the undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Guarantor or another of its Subsidiaries; or

(g) **Enforcement Proceedings**: a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries, and is not discharged or stayed within 60 days; or

(h) **Security Enforced**: an encumbrancer takes possession or an administrative or other receiver or an administrator or other similar officer is appointed of the whole or any material part of the property, assets or revenues of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries (as the case may be) and is not discharged within 60 days; or

(i) **Assignment**: the Issuer, the Guarantor or any of the Guarantor's Subsidiaries makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors); or

(j) **Nationalisation**: any step is taken by any Person that will result in the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries such that the Issuer, the Guarantor or any of the Guarantor's Subsidiaries, as applicable, is prevented from exercising normal control over all or a material part of its property, assets or turnover (to the extent that such assets have not already been seized, compulsory acquired, expropriated or nationalised); or

(k) **Moratorium**: the Beijing Municipal Government declares a moratorium on the payment of any obligations by the Beijing Municipal Government; or

(l) **Ownership**: the Issuer ceases to be a subsidiary wholly owned and controlled, directly or indirectly, by the Guarantor; or

(m) **Unenforceability**: the Bonds, the Trust Deed, the Agency Agreement or the Guarantee is or becomes unenforceable or invalid; or

(n) **Approval**: any regulation, decree, consent, approval, license or other authority necessary to enable the Issuer or the Guarantor to perform its obligations under the Bonds, the Trust Deed, the Agency Agreement or the Guarantee for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified; or

(o) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has or may have an analogous effect to any of the events referred to in Conditions 9(d) and 9(n) above,

each of the Issuer and the Guarantor has undertaken in the Trust Deed that it will send to the Trustee, within the applicable time periods set out in the Trust Deed, a certificate signed by two directors of the Issuer who are also Authorised Signatories of the Issuer or, as the case may be, two directors of the Guarantor who are also Authorised Signatories of the Guarantor to the effect that, as at a date not more than five days prior to the date of the certificate, no Event of Default or Potential Event of Default (as defined in the Trust Deed) has occurred.

For the purpose of these Conditions,

"**Dollar Equivalent**" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

10 PRESCRIPTION

Claims against the Issuer and the Guarantor for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal or premium (if any)) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11 REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent as may from time to time be designated by the Issuer or the Guarantor for that purpose and notice of whose designation is given to Bondholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Registrar and/or such Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

(a) **Meetings of Bondholders**: The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including without limitation the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed or the Agency Agreement. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if it receives a written request from Bondholders holding not less than 10 per cent. in aggregate principal amount of the Bonds for the time being outstanding and is indemnified and/or secured and/or prefunded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in aggregate principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, any premium payable in respect of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, or (v) to modify or cancel the Guarantee, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in aggregate principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in aggregate principal amount of the Bonds for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) **Modification of Agreements and Deeds**: The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 16.

(c) **Substitution**: The Trust Deed contains provisions permitting (but not obliging) the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of any other company in place of the Issuer or the Guarantor, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed and the Bonds. In the case of such a substitution, the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.

(d) **Entitlement of the Trustee**: In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in this Condition 12) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders, and the Trustee shall not be entitled to require on behalf of any Bondholders, nor shall any Bondholder be entitled to claim, from the Issuer, the Guarantor or the Trustee (as the case may be) any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

13 ENFORCEMENT

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, take such steps and/or actions and/or institute such proceedings against the Issuer and/or the Guarantor (as the case may be) as it may think fit to enforce the terms of the Trust Deed and the Bonds, but it need not take any such steps and/or actions and/or institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in aggregate principal amount of the Bonds then outstanding, and (b) it shall first have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Issuer and/or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including, without limitation, provisions relieving it from taking any steps and/or actions and/or instituting proceedings to enforce its rights under the Trust Deed, the Agency Agreement and/or these Conditions and in respect of the Bonds and payment or taking other actions unless first indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and/or any entity related (directly or indirectly) to the Issuer or the Guarantor without accounting for any profit.

The Trustee may rely without liability to Bondholders, the Issuer, the Guarantor or any other person on any report, confirmation, certificate or information from or any advice or opinion of any legal advisers, accountants, auditors, valuers, auctioneers, surveyors, brokers, financial advisers, financial institution or any other expert, whether or not obtained by or addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, opinion, certificate, information or advice, in which event such report, confirmation, opinion, certificate, information or advice shall be binding on the Issuer, the Guarantor and the Bondholders.

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision or giving any such direction, to seek directions from the Bondholders by way of Extraordinary Resolution and to be indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which in its opinion it may be or become liable and all costs, charges, damages, expenses (including without limitation legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Guarantor, the Bondholders or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision or giving such direction as a result of seeking such direction from the Bondholders or in the event that no direction is given to the Trustee by the Bondholders (whether given by Extraordinary Resolution or otherwise as contemplated or permitted by the Trust Deed and/or the Bonds).

Neither the Trustee nor any of the Agents shall be responsible for the performance by the Issuer, the Guarantor and any other person appointed by the Issuer and/or the Guarantor in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer or the Guarantor to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. The Trustee shall not be liable to any Bondholder, the Issuer, the Guarantor or any other person for any action taken by the Trustee in accordance with the instructions of the Bondholders. The Trustee shall be entitled to rely on any direction, request or resolution of Bondholders given by holders of the requisite principal amount of Bonds outstanding or passed at a meeting of Bondholders convened and held in accordance with the Trust Deed.

Neither the Trustee nor any of the Agents shall be under any obligation or be required to ascertain whether any Event of Default, Potential Event of Default (as defined in the Trust Deed) or Change of Control Triggering Event has occurred or may occur and each of them shall be entitled to assume that no such event has occurred until it has received written notice to the contrary from the Issuer. Neither the Trustee nor the Agents shall be responsible or liable to the Bondholders, the Issuer or any other person for any loss or liability arising from any failure to do so.

Each Bondholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer, the Guarantor and their respective Subsidiaries, and the Trustee shall not at any time have any responsibility for the same and each Bondholder shall not rely on the Trustee in respect thereof.

15 FURTHER ISSUES

The Issuer may from time to time without the consent of the Bondholders create and issue further bonds either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them and the timing for complying with the requirements set out in these Conditions in relation to the NDRC Post-issue Filing) and so that such further issue shall be consolidated and form a single series with the outstanding bonds of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any such other bonds issued pursuant to this Condition 15 and forming a single series with the Bonds. Any further bonds forming a single series with the Bonds shall be constituted by a deed supplemental to the Trust Deed.

16 NOTICES

Notices to the holders of Bonds shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bonds shall also be published at the Issuer's expense in a leading English language daily newspaper having general circulation in Asia (which is expected to be The Wall Street Journal Asia).The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

So long as all the Bonds are represented by a Global Certificate and such Global Certificate is held by or on behalf of Euroclear Bank SA/NV and Clearstream Banking S.A., any notice to Bondholders shall be validly given by the delivery of the relevant notice to Euroclear Bank SA/NV and Clearstream Banking S.A., for communication by it to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

17 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

Without prejudice to Condition 13, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999, except and to the extent (if any) that the Bonds expressly provide for such Act to apply to any of their terms.

18 GOVERNING LAW AND JURISDICTION

(a) **Governing Law**: The Trust Deed, the Agency Agreement, the Guarantee and the Bonds, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction**: The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Bonds, the Guarantee and the Trust Deed and accordingly any legal action or proceedings arising out of or in connection with any Bonds, the Guarantee or the Trust Deed ("**Proceedings**") may be brought in the courts of England. Pursuant to the Trust Deed, each of the Issuer and the Guarantor has irrevocably submitted to the jurisdiction of the courts of England and waives any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) **Agent for Service of Process**: Each of the Issuer and the Guarantor has irrevocably agreed to appoint Law Debenture Corporate Services Limited of 8th Floor, 100 Bishopsgate, London, EC2N 4AG as its agent in England to receive service of process in any Proceedings in England based on any of the Bonds. If for any reason the Issuer (or as the case may be, the Guarantor) does not have such an agent in England, the Issuer (or as the case may be, the Guarantor) will promptly appoint a substitute process agent and notify the Bondholders of such appointment within 30 days of the Issuer (or as the case may be, the Guarantor) ceasing to have a process agent in England. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) **Waiver of Immunity**: Each of the Issuer and the Guarantor has waived any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and has irrevocably consented to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

TERMS AND CONDITIONS OF THE SERIES 2 BONDS

The terms and conditions of the Series 2 Bonds will be identical to those under "Terms and Conditions of the Series 1 Bonds" save as set out below. References to the "Bonds" shall be construed as references to the Series 2 Bonds.

1. The principal amount of the Series 2 Bonds shall be U.S.$400,000,000.

2. The rate of interest of the Series 2 Bonds shall be 3.125 per cent. per annum.

3. The Maturity Date of the Series 2 Bonds shall be 6 May 2031.

4. The first paragraph of Condition 5 (*Interest*) shall be as follows:

   "The Bonds bear interest on their outstanding principal amount from and including 6 May 2021 at the rate of 3.125 per cent. per annum, payable semi-annually in arrear in equal instalments of U.S.$15.625 per Calculation Amount (as defined below) on 6 May and 6 November in each year (each an "**Interest Payment Date**"), commencing on 6 November 2021."

5. The first paragraph of Condition 6(d) (*Redemption at the Option of the Issuer)* shall be as follows:

   "**Redemption at the Option of the Issuer**: The Issuer may, at any time upon giving not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Bondholders and in writing to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), redeem the Bonds, in whole but not in part, at:

   (A) a Make-Whole Price, at any time before 6 February 2031 (being the date that falls three months prior to the Maturity Date); or

   (B) their principal amount, at any time on or after 6 February 2031 (being the date that falls three months prior to the Maturity Date),

   in each case, together with accrued and unpaid interest, if any, to but excluding, the redemption date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice."

6. The definition of "**Make-Whole Price**" in Condition 6(d) (*Redemption at the Option of the Issuer)* shall be as follows:

   ""**Make-Whole Price**" means, in respect of each Bond, (a) the principal amount of such Bond or, if this is higher, (b) the amount equal to the sum of the present value of the principal amount of such Bond, together with the present values of the scheduled interest payments from the Optional Redemption Date to the Maturity Date in each case, discounted to the Optional Redemption Date on a semi-annual compounded basis at the adjusted U.S. Treasury Rate plus 0.25 per cent., all as determined by the Independent Investment Bank;"

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

Each Global Certificate contains provisions which apply to the relevant Bonds while they are in global form, some of which modify the effect of the respective Terms and Conditions set out in this Offering Circular. The following is a summary of certain of those provisions.

Terms defined in the respective Terms and Conditions set out in this Offering Circular have the meaning in the paragraphs below.

Each series of the Bonds, upon issue, will be evidenced by a Global Certificate which will be registered in the name of a nominee of, and deposited with, a common depositary on behalf of Euroclear and Clearstream.

Under each Global Certificate, the Issuer, for value received, will promise to pay such principal, interest and premium (if any) on the Bonds to the holder of the Bonds on such date or dates as the same may become payable in accordance with the respective Terms and Conditions.

Owners of interests in the Bonds in respect of which a Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive Certificates if either Euroclear or Clearstream or any other clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

Whenever a Global Certificate is to be exchanged for individual Certificates in definitive form, such Certificates will be issued in an aggregate principal amount equal to the principal amount of such Global Certificate. Such exchange will be effected in accordance with the provisions of the respective Trust Deed, the respective Agency Agreement and the regulations concerning the transfer and registration of the Bonds scheduled thereto and, in particular, shall be effected without charge to any holder of the Bonds or the Trustee, but against such indemnity and/or security and/or prefunding as the Registrar or the relevant Agents may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

The Issuer will cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant holders of the Bonds. A person with an interest in the Bonds in respect of which a Global Certificate is issued must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive certificates.

In addition, each Global Certificate will contain provisions which modify the respective Terms and Conditions as they apply to the Bonds evidenced by the Global Certificate. The following is a summary of certain of those provisions:

Record date

So long as a Global Certificate is held on behalf of Euroclear and Clearstream or any other clearing system, each payment in respect of such Global Certificate will be made to the person shown as the holder of the Bonds in the respective Register at the close of business on the Clearing System Business Day immediately prior to the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

Trustee's Powers

In considering the interests of the holders of the Bonds whilst a Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, but shall not be obliged to, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which such Global Certificate is issued.

Notices

So long as each series of Bonds are evidenced by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing System, notices to holders of the Bonds shall be given by delivery of the relevant notice to Euroclear or Clearstream or such Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the respective Terms and Conditions.

Whilst any of the Bonds held by a Bondholder are represented by a Global Certificate, notices to be given by such Bondholder may be given by such Bondholder (where applicable) through Euroclear and/or Clearstream and otherwise in such manner as the Trustee and Euroclear and Clearstream may approve for this purpose.

Transfers

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

Cancellation

Cancellation of any Bond evidenced by a Global Certificate which is required by the respective Terms and Conditions to be cancelled will be effected by reduction in the principal amount of the Bonds in the respective Register.

Meetings

For the purposes of any meeting of Bondholders, the holder of the Bonds evidenced by a Global Certificate shall (unless such Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each U.S.$1,000.

Calculation of Interest

So long as the Bonds are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, the Issuer has promised, *inter alia*, to pay interest in respect of such Bonds from the Issue Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the respective Terms and Conditions, save that the calculation is made in respect of the total aggregate amount of the Bonds represented by such Global Certificate.

Bondholder's Redemption

The Bondholder's redemption option in Condition 6(c) of the respective Terms and Conditions may be exercised by the holder of the relevant Global Certificate giving notice to the Principal Paying Agent of the principal amount of Bonds in respect of which the option is exercised within the time limits specified in the Terms and Conditions.

Issuer's Redemption

The option of the Issuer provided for in Condition 6(b) and Condition 6(d) of the respective Terms and Conditions shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by the respective Terms and Conditions.

The Global Certificate shall not become valid for any purpose until authenticated by or on behalf of the Registrar.

USE OF PROCEEDS

The Issuer intends to on-lend the gross proceeds to the Guarantor for refinancing existing offshore indebtedness.

CAPITALISATION AND INDEBTEDNESS

The following table sets out, on a consolidated basis, the capitalisation of the Guarantor as at 31 December 2020, on an actual basis and as adjusted to give effect to the issue of the Bonds and aggregate principal amount of the Bonds:

	As at 31 December 2020		
	Actual	**As Adjusted[1]**	
	(HK$'000)	**(HK$'000)**	**(U.S.$'000)**
Short-term borrowings			
Bank and other borrowings	15,398,065	15,398,065	1,985,976
Guaranteed bonds and notes[2]	4,611,320	4,611,320	594,748
Long-term borrowings			
Guaranteed bonds and notes[2]	26,861,083	26,861,083	3,464,426
Bank and other borrowings	21,770,556	21,770,556	2,807,872
Series 1 Bonds being offered	–	2,326,020	300,000
Series 2 Bonds being offered	–	3,101,360	400,000
Total short-term and long-term borrowings	68,641,024	74,068,404	9,553,022
Shareholders' equity			
Share capital[3]	30,401,883	30,401,883	3,921,103
Reserves	54,495,223	54,495,223	7,028,558
Total equity[4]	84,897,106	84,897,106	10,949,662
Total capitalisation[5]	153,538,130	158,965,510	20,502,684

Notes:

(1) Figures in the "As adjusted" column reflect the issue of the Bonds and the receipt of the gross proceeds thereof. The translation from HK$ to U.S.$ were made at the rate of HK$7.7534 to U.S.$1.00, being the noon buying rate in New York City on 31 December 2020 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System.

(2) These notes are issued by subsidiaries of the Guarantor and guaranteed by the Guarantor and a subsidiary of the Guarantor.

(3) The issued share capital of the Guarantor consisted of 1,262,053,268 shares of no par value as at 31 December 2020.

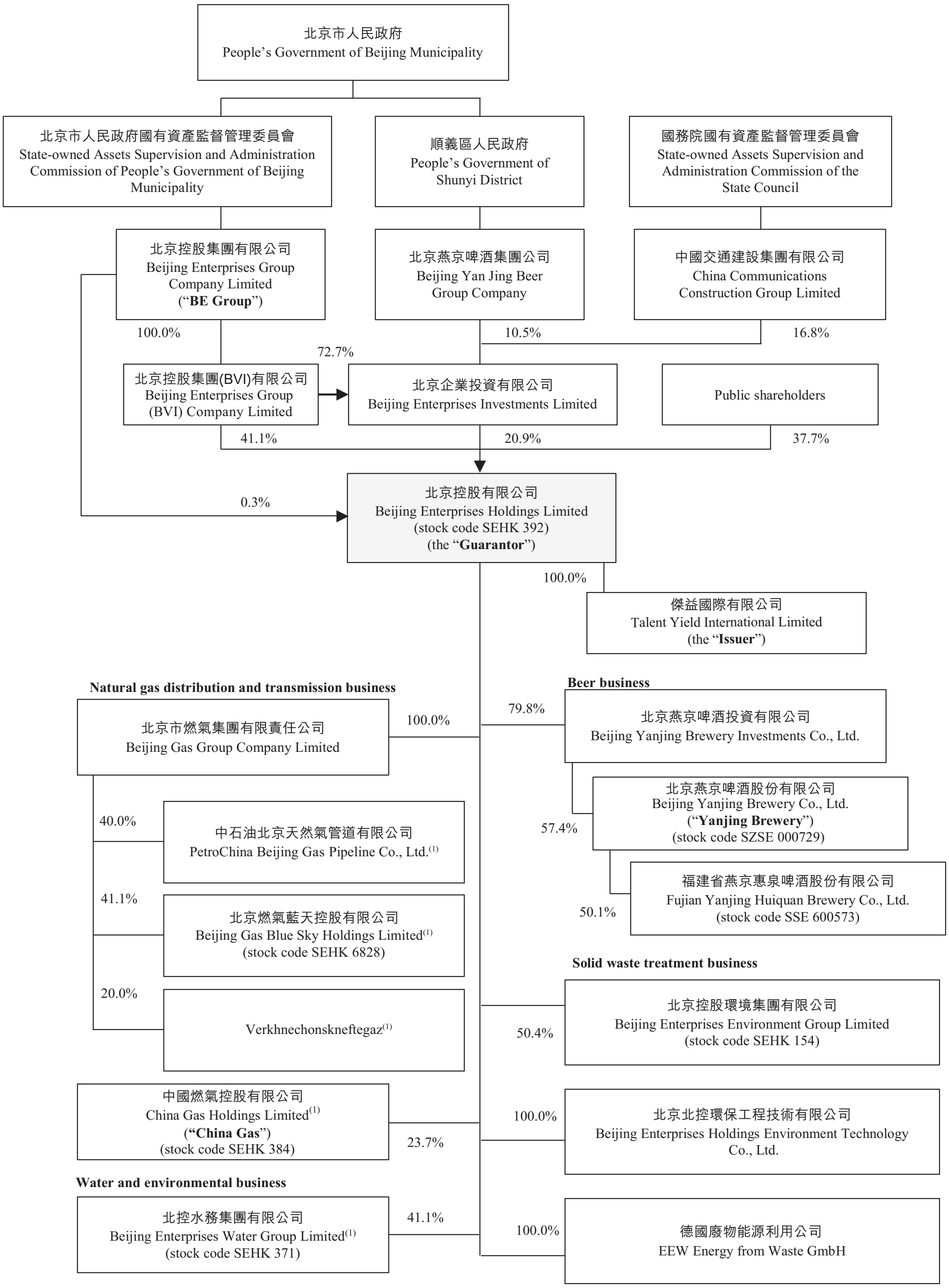
(4) Total equity is the total equity attributable to the shareholders of the Guarantor.

(5) Total capitalisation represents the total of short-term and long-term borrowings plus total equity attributable to the shareholders of the Guarantor.

There has been no material change in the total capitalisation and indebtedness, on a consolidated basis, of the Guarantor since 31 December 2020 up to the date of this Offering Circular.

GROUP STRUCTURE

The following chart sets forth a simplified version of the Group's corporate structure showing only the Group's principal subsidiaries and associates as at the date of this Offering Circular. The shareholding interests indicated are the direct and indirect shareholding interests held by the immediate parent and therefore may not reflect the Group's effective interest in the relevant entity.



Note:

(1) Accounted for as an associate.

THE ISSUER

The Issuer, incorporated in the British Virgin Islands on 4 January 2016 with company number 1901412, is a wholly-owned subsidiary of the Guarantor. The registered office of the Issuer is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

The Issuer serves as one of the Group's platforms for overseas development, including engaging in offshore debt financing activities. As at the date of the Offering Circular, the Issuer does not carry on any activity other than to finance the business operations of the Guarantor or one or more companies controlled by the Guarantor through the offer, sale or issuance of securities (including the Bonds), borrowing of indebtedness, investing in or lending the proceeds thereof to the Guarantor or a company controlled by the Guarantor, or any other activities in connection therewith and entering into relevant arrangements for the issue of the Bonds.

The Issuer is not required by the laws of the British Virgin Islands to carry out annual audits, appoint auditors or publish financial statements. Since the date of its incorporation, no financial statements of the Issuer have been published.

The Issuer will be managed in accordance with its memorandum and articles of association and the laws of the British Virgin Islands.

As at the date of this Offering Circular, the Issuer has no subsidiaries and the directors of the Issuer are XIONG Bin, TAM Chun Fai and TUNG Woon Cheung, Eric. The business address of the directors of the Issuer is at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

As at the date of this Offering Circular, there are no potential conflicts of interest between any duties of the directors of the Issuer and their private interests and/or other duties.

THE GUARANTOR

The Guarantor, incorporated in Hong Kong on 26 February 1997 is a limited liability company with registration number 596005 and the shares of which are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 0392). The registered office of the Guarantor is at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The Guarantor will be managed in accordance with its articles of association and with the provisions of the laws of Hong Kong.

The business address of the directors of the Guarantor is at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

As at the date of this Offering Circular, there are no potential conflicts of interest between any duties of the directors of the Guarantor and their private interests and/or other duties.

THE GROUP

OVERVIEW

The Guarantor is a conglomerate backed by the Beijing Municipal Government, its major shareholder, which has focused on managing strategic infrastructure, public utilities and other investments since its listing on the Hong Kong Stock Exchange on 19 May 1997. The Guarantor's broad portfolio of businesses include natural gas distribution and transmission business, beer business, water and environmental business, and solid waste treatment business. The Guarantor maintains a leading market position in most of these segments, each of which generates a stable cash flow for the Guarantor, enabling it to manage volatility across various business segments and capture growth opportunities throughout the PRC. Leveraging its diverse business portfolio, the Guarantor seeks to achieve consistent financial performance and attract international investment to further develop municipal infrastructure and its other businesses in Beijing and throughout the PRC. The Guarantor is rated "Baa1" by Moody's and "BBB+" by S&P.

The Guarantor carries out its portfolio of businesses mainly through the following subsidiaries and associates:

- **Natural gas distribution and transmission business:** Beijing Gas, a wholly-owned subsidiary of the Guarantor, is the largest single-city gas supplier and service provider in the PRC in terms of volume of natural gas sourced annually, number of customers, length of pipeline network and annual sales for the year ended and as at 31 December 2020. Beijing Gas had a total of over 6.5 million piped gas subscribers in Beijing and approximately 25,100 kilometres of natural gas pipelines in operation as at 31 December 2020. With over five decades of fuel gas management experience and expertise, Beijing Gas's natural gas distribution network supplies natural gas to residential, industrial and power generation users in the Greater Beijing city area and other provinces and cities in the PRC. The Group expects that the PRC government's objective to reduce coal-fired power generation in the Greater Beijing city area will help maintain and expand the Guarantor's leading market position through coal-to-gas power plant conversions and increased promotion of natural gas as a cleaner alternative to other power generation fuels. In addition to Beijing Gas, the Group held a 23.7 per cent. interest in China Gas as at 31 December 2020. China Gas is a gas operator and service provider primarily engaged in the investment, construction and operation of city gas pipeline infrastructure facilities and transmission of natural gas and LPG business in China.

- **Beer business:** Yanjing Brewery is a subsidiary of the Guarantor in which the Guarantor had a 57.4 per cent. interest as at 31 December 2020. Yanjing Brewery operates one of the largest breweries in Asia and top ten breweries in the world based on sales volume as at 31 December 2020 with a diversified brand and product portfolio, a leading market position in Beijing and strong national reputation. Yanjing Brewery produces a wide variety of products designed to appeal to different consumer groups and covering different price points. Through its wide-reaching local production centres, it distributes beer and other beverage products to most parts of the PRC using a three-tier distribution network of distributors, wholesalers and retailers.

- **Water and environmental business:** BE Water is an associate of the Guarantor in which the Guarantor had a 41.1 per cent. interest as at 31 December 2020. BE Water is principally engaged in (i) water treatment services (comprising sewage and reclaimed water treatment services and water distribution services), (ii) construction services for water environmental renovation projects, and (iii) technical services and sale of machineries for water environmental renovation. Extensive PRC government policy directives intended to ensure a safe and reliable water distribution throughout the PRC have resulted in opportunities to bundle sewage and water treatment projects, thereby enabling BE Water to leverage its design, construction and operations expertise for provincial governments nationally. BE Water has developed an integrated business model with design and technical consultancy, construction, ownership and operational capabilities for sewage and water treatment projects. BE Water's extensive project capabilities enable it to capture the entire value chain from project concept and design stages through construction and operation.

- **Solid waste treatment business:** Beijing Enterprises Environment Group Limited ("**BE Environment**") and Beijing Enterprises Holdings Environment Technology Co., Ltd ("**BEHET**") are subsidiaries of the Guarantor in which the Guarantor had a 50.4 per cent. interest and a 100.0 per cent. interest, respectively, as at 31 December 2020. BE Environment and BEHET are both primarily engaged in environmental protection and solid waste treatment business in China. EEW GmbH, a wholly-owned subsidiary of the Guarantor, is a leading energy-from-waste company in Europe headquartered in Germany with an approximately 28.0 per cent. market share in Germany as at 31 December 2020.

The Group recorded revenue of HK$67,764.8 million, HK$67,783.0 million and HK$68,407.4 million for the years ended 31 December 2018, 2019 and 2020, respectively. The Group had total assets of HK$174,496.3 million, HK$185,806.3 million and HK$204,804.4 million as at 31 December 2018, 2019 and 2020, respectively.

RECENT DEVELOPMENTS

COVID-19 Outbreak

The outbreak of COVID-19 since early 2020 has led to instability and volatility in global markets. It has had and may continue to have adverse impacts on certain operations of the Group and its associates. The Group recorded a net profit of approximately HK$5,646.5 million for the year ended 31 December 2020, representing a decline by approximately 34.1 per cent. from the net profit of approximately HK$8,573.6 million for the year ended 31 December 2019. Such decline was partly caused by reduction in operating activities, consumption shrinkage and project delay amid the outbreak and spread of COVID-19 across the world, which in particular affected the Group's associates and led to a decrease in the share of profits of associates as recognised by the Guarantor. Given the uncertainties as to the development of the COVID-19 outbreak at the moment, it is difficult to predict how long the adverse impact of the pandemic will last and the extent to which the Group may be affected in the long run. For more details on COVID-19, see "*Risk Factors – The national and regional economies in the PRC and the Group's business operations, financial condition, results of operations and prospects may be adversely affected by any force majeure events, including occurrence of natural disasters, acts of God or outbreaks of contagious diseases or other epidemics (such as COVID-19).*"

COMPETITIVE STRENGTHS

The Guarantor believes its competitive strengths include:

Strong support from the Beijing Municipal Government

As at the date of this Offering Circular, the Beijing Municipal Government, through companies under its control and supervision, has a 62.3 per cent. effective interest in the Guarantor. The Guarantor enjoys a number of direct and indirect benefits as a result of its status as the key utilities investment and operating platform of State-owned Assets Supervision and Administration Commission of People's Government of the Beijing Municipal Government ("**Beijing SASAC**").

- *Entrust the Guarantor to operate and manage strategically important and substantial assets:*

  The Guarantor has been entrusted with providing public services that are critical to Beijing's infrastructure via its natural gas distribution and transmission business, water and environmental business and the solid waste treatment business:

– *Natural gas distribution and transmission business*: The Beijing Municipal Government has granted the Guarantor the concession right, which is an effective monopoly right to distribute natural gas in Beijing for a 25-year period ending in 2032. Moreover, the Guarantor believes its strategic relationship with Beijing Municipal Government would assist PetroChina Beijing Pipeline Co., an associate where the Guarantor holds a 40.0 per cent. interest, to secure sufficient natural gas supply to Beijing. The strong relationship with the PRC government and state-owned enterprises enhances the Guarantor's bargaining power in relation to the cost pass-through mechanism for preserving margins related to natural gas distribution as well as upstream wellhead price-setting.

– *Water and environmental business*: With Beijing Municipal Government's support, the Group was granted the franchise operating rights for the Beijing No.9 water treatment plant and Beijing No. 10 water treatment plant, two of the most important water treatment and water distribution development projects in Beijing and entrusted BE Water for operation of the projects. The strong relationship with the PRC government also facilitates BE Water to expand its presence by investing in and/or operating water plants in 20 provinces, five autonomous regions and three municipalities across the PRC.

– *Solid waste treatment business*: With the support of the Beijing Municipal Government, the Guarantor obtained the concession rights to invest, construct, manage and operate Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Plant Project(北京市海澱區循環經濟產業園再生能源發電廠項目) and Beijing Gaoantun Waste Incineration Project(北京高安屯垃圾焚燒項目), both are large scale WTE projects in Beijing with processing capacities of 2,100 tons per day and 1,600 tons per day, respectively.

• *Support for strategic acquisition and disposal of non-core and non-profitable assets by the Group:* The Beijing Municipal Government has been very supportive for the Guarantor to execute its strategic plans by acquiring strategic assets and disposing non-core assets:

– *Strategic acquisition:* In March 2016, the Guarantor successfully acquired 100.0 per cent. equity interest of EEW GmbH, the largest waste incineration power enterprise in Germany. The Guarantor believes that it is by far the largest overseas merger and acquisition project undertaken by a Chinese enterprise in the solid waste treatment sector. The acquisition of EEW GmbH is in line with the Guarantor's strategy to expand its solid waste treatment business platform and enhance the Group's industry position. With the support of the PRC government, in June 2017, Beijing Gas acquired 20.0 per cent. of the share capital of VCNG, a subsidiary of Rosneft which is principally engaged in exploring, appraising, developing, producing and marketing oil, gas and condensate field in Russia. The Guarantor's investment in VCNG provides a strategic platform for the Group to expand its business along the value chain into the upstream sector of oil and gas supply and it further enhances the Group's industry position in the gas distribution sector. In addition, in March 2019, the Group acquired a 60.0 per cent. equity interest in Tangshan Natural Gas Company Limited and its subsidiaries (the "**Tangshan Group**") to strengthen the Group's presence outside Beijing city, by way of capital contribution of RMB800.0 million. Tangshan Group is principally engaged in the distribution and sale of piped natural gas in Hebei province of the PRC. The acquisition expands the Group's geographical presence and further consolidates the Group's gas distribution business.

– *Strategic disposal:* In March 2016, BE Environment disposed of 72.0 per cent. equity interest in BE Information Technology Group Limited, a company principally engaged in IT services, to a subsidiary of BE Group. By spinning off of its non-profitable IT services business, BE Environment is able to focus on its core business of environmental protection and solid waste treatment. The asset disposals are in line with the Guarantor's strategy to position itself as a utilities conglomerate focusing on urban energy services.

- *Support for the Group's financing activities:* As a result of the Beijing Municipal Government's policy of ongoing support for the Guarantor and its businesses, the Guarantor is able to secure financing at attractive rates. All of the offshore loan agreements of the Guarantor include conditions that require BE Group to hold directly or indirectly the majority stake in the Guarantor and the Beijing Municipal Government to control and supervise BE Group. In September 2020, Talent Yield (Euro) Limited, a wholly-owned subsidiary of the Guarantor, issued guaranteed green bonds with principal amounts of €500 million. The bonds were priced at a competitive rate relying on the strong support from and credit of the Beijing Municipal Government.

- *Close relationship between Beijing SASAC and the Guarantor's senior management:* The Guarantor has been a flagship and key asset for Beijing SASAC for a long time. The close relationship between Beijing SASAC and the Guarantor has been strengthened throughout the years through mutual exchange of management staff. For example, several chief officers of Beijing SASAC had assumed the senior management positions in the Guarantor before, including previous chief officers Mr. Xiong Daxin who assumed the position of Executive Director, Executive Vice Chairman and President of the Guarantor and Mr. Lin Fusheng who was the Guarantor's Executive Director and Vice Chairman. The Beijing Municipal Government appoints such officers with strong exposure in both government policies and industry expertise to facilitate execution of government strategies, who can add value to the state-owned assets that the Guarantor manages in order to facilitate Beijing SASAC's supervision and control of the Guarantor's operating risks.

Favourable market positions to benefit from supportive PRC government policies

One of the Guarantor's principal businesses relates to the distribution and transmission of natural gas, particularly to the expanding Greater Beijing city for a 25-year period ending in 2032. The NDRC and 12 other ministries and state administrations jointly issued the Opinions on Accelerating Promotion of Natural Gas Usage（加快推進天然氣利用的意見）on 23 June 2017 with a target to further boost the share of natural gas in primary energy consumption to 15 per cent. by 2030 and to increase the total working capacity of underground gas storage to 35 billion cubic metres by 2030. As stated in the white paper titled "Energy in China's New Era（新時代的中國能源發展）" issued by the State Council Information Office of the PRC in December 2020 (the "**White Paper**"), China is committed to driving an energy revolution by building a more diversified energy supply structure. The White Paper noted that China has been vigorously promoting clean and efficient use of fossil energy in recent years. Preliminary calculations suggested that in 2019, coal consumption in China accounted for 57.7 per cent. of total energy consumption, representing a decrease of 10.8 percentage points from 2012 while the consumption of clean energy (comprising natural gas, hydropower, nuclear power, wind power) accounted for 23.4 per cent. of total energy consumption, representing an increase of 8.9 percentage points as compared to 2012. Annual production of natural gas in China increased from 110.6 billion cubic metres in 2012 to 176.2 billion cubic metres in 2019. In addition, the Fourteenth Five-Year Plan for the National Economic and Social Development and Outline of Long-term Goals for 2035 of the PRC（中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要）(the "**Fourteenth Five-Year Plan**") published in March 2021 set carbon emission control and promotion of clean, low-carbon and efficient use of energy as one of the goals for China's economic and social development over the next five-year period and through 2035.

Furthermore, the PRC government and the government of the Russian Federation signed a landmark contract in May 2014 in which Russia agreed to supply up to 38.0 billion cubic metres of natural gas to the PRC on an annual basis for a period of 30 years beginning in 2018. Through coal-to-gas conversions of major electricity generators in and around Beijing and the expected subsequent increased usage of natural gas following such conversions, as well as the favourable development of national policy, the Guarantor believes it is well-positioned to promote and benefit from such PRC government policy directives promoting cleaner-burning fuels such as natural gas in the residential, industrial and power generation sectors.

BE Water's water and environmental business also benefits from favourable government policies. The Action Plan for Prevention and Control of Water Pollution (《水污染防治行動計劃》) promulgated by the PRC State Council in April 2015 enhanced the control and supervision over pollutant emissions in water, thus driving up the demand of a full-scale water environmental renovation work covering pollutant emissions control as well as sewage and industrial effluent treatment. BE Water is well positioned to capitalise on the business opportunities arising from the implementation of these policies.

In addition, the Fourteenth Five-Year Plan called for a comprehensive renovation of solid waste storage mechanism, improvement in hazardous waste supervision and risk prevention and development of an efficient resource recycling system. The Group believes it could further develop its solid waste treatment business benefiting from these policies.

A leading PRC gas utility service provider with a large-scale distribution network, integrated business model and effective monopoly position in Beijing

Beijing Gas holds effective monopoly rights to distribute natural gas in the expanding Greater Beijing city area for a 25-year period ending in 2032 granted by the Beijing Municipal Government. Beijing Gas is the largest single-city gas supplier and service provider in the PRC in terms of volume of natural gas sourced annually, number of customers, length of pipeline network and annual sales as at 31 December 2020. Beijing Gas had a total of over 6.5 million piped gas subscribers in Beijing and approximately 25,100 kilometres of natural gas pipelines in operation as at 31 December 2020. This leading position, bolstered by strong support from the Beijing Municipal Government and significant infrastructure investment to extend Beijing Gas's network to Beijing's satellite new towns, provides Beijing Gas with a solid platform for growth and a healthy basis for future revenue streams and establishes significant barriers to entry for potential competitors.

The Guarantor also participates in midstream natural gas transmission services through its 40.0 per cent. owned associate, PetroChina Beijing Pipeline Co. The Guarantor believes this strategic cooperation provides it with stable gas supplies and priority for allocation of gas supplies to Beijing and secures competitive pricing terms so as to optimise Beijing Gas's profitability.

In addition, the Guarantor currently owns a 41.1 per cent. equity interest in Beijing Gas Blue Sky, a company listed on the main board of the Hong Kong Stock Exchange (stock code: 6828). Beijing Gas Blue Sky is an integrated natural gas provider and operator principally engaged in development and operation of city gas projects, supply of LNG to industrial end users, trading and distribution of CNG and LNG as well as operating CNG and LNG refilling stations for vehicles.

Diversified business portfolio reducing business concentration risk

The Guarantor believes that a diversified portfolio of natural gas distribution and transmission business, beer business, water and environmental business and solid waste treatment business will continue to provide the Group with stable cashflows in the coming years as a result of the strong operational track record and the Guarantor's prudent fiscal policy. The Group's increasingly diversified business portfolio allows it to capitalise on the growth potential in various industry segments, and help it to mitigate the exposure to any single operation or business segment, thereby reducing the risk of business concentration. Moreover, to further reduce business concentration risk, the Guarantor has been actively diversifying its business geographically. In the natural gas distribution business, the Guarantor owns a 23.7 per cent. stake in China Gas, which supplies piped natural gas, and operates 636 piped-gas projects across the PRC as at 31 December 2020. The Guarantor's investment in VCNG serves as another step to enhance the Group's involvement in the natural gas value chain by exploring the upstream oil and gas supply business.

Similarly, leveraging its track record and its market presence in 20 provinces, five autonomous regions and three municipalities in the PRC, BE Water has been diversifying its business geographically by tapping into international markets including operation of water plants and/or provision of construction services for water environmental renovation in Singapore, Portugal, Australia, Malaysia, New Zealand and Botswana.

With respect to solid waste treatment business, the Guarantor has been enhancing its national and international presence in this business by both merger and acquisition and expansion of scale of existing projects. For example, in March 2016, the Guarantor successfully acquired 100.0 per cent. equity interest of EEW GmbH, a leading energy-from-waste company in Europe headquartered in Germany.

The Guarantor has generated strong cash flows and maintained relatively consistent margins. The Guarantor believes its diversified business portfolio and increasing geographical diversification will help mitigate its exposure to risks associated with single operation and business concentration in Beijing.

Track record of steady growth with attractive and visible growth prospects

Over the past years, the Group has achieved steady growth across its business segments. The Group's revenue increased from HK$67,764.8 million for the year ended 31 December 2018 to HK$67,783.0 million for the year ended 31 December 2019 and further to HK$68,407.4 million for the year ended 31 December 2020. Despite the tough business environment during 2020 amid the outbreak and spread of COVID-19 across the world, the Group nevertheless recorded an increase in revenue for 2020 as compared to 2019, evidencing the resilience and stability of the Group's business operation. The Guarantor believes it is well-positioned to participate in the potential future growth in PRC energy consumption and demographic trends such as the increasing urbanisation of the PRC's population. Driven by escalating energy consumption levels and the PRC government policies encouraging cleaner-burning fuels for power generation in urban areas, the Guarantor expects its natural gas network to significantly expand as natural gas supply increases in the Beijing metropolitan and other areas. Likewise, the Guarantor expects national policies to support the water, environmental and solid waste treatment business of the Guarantor and BE Water, including their design and construction capabilities related to green-field projects.

Strong financial position with flexible sources of funding

The Guarantor has been listed on the Hong Kong Stock Exchange since 1997. It and its associates conduct most of its business, including natural gas distribution and transmission business, beer business, water and environmental business and solid waste treatment business, in the PRC. The Group has access to both international and domestic equity and debt financing and the ability to tap both sources of funding depending on market conditions, thereby securing the most favourable financing terms and maximising its funding efficiency. The Group's management believes that the Group's ability to obtain international financing gives it a competitive advantage over other local competitors in the PRC who may only have access to domestic funding, the availability and costs of which may be affected by any credit control measures introduced by the PRC government. As such, the Group's management believes that its liquidity position is robust, supported by access to diversified funding sources.

In addition, the downstream natural gas distribution business, together with dividend income from subsidiaries and associates such as PetroChina Beijing Pipeline Co., BE Water, China Gas and EEW GmbH, have been constantly contributing to the operating cash flow of the Group and significantly increased its liquidity. As a result, the Group is well positioned to capture investment opportunities in the future and continue to develop and grow.

Excellent management with a proven track record and deep industry expertise

Members of the Guarantor's management team have extensive experience in their specialised areas, including public utilities, assets management, capital operations and finance. The Guarantor believes that its experienced and dedicated management team has been instrumental to the growth of its business. The

Guarantor has been seeking attractive energy and infrastructure investments in the PRC and overseas markets to enhance the value of the Guarantor's existing businesses. The Guarantor's strategic investments in BE Environment, China Gas, EEW GmbH and VCNG as well as its divestments of non-core business such as IT services carried out by the Guarantor's management team demonstrate the ability of the Guarantor's management team to effectively implement the Group's growth and business strategies. Moreover, the Guarantor believes its profound understanding of local market and close relationship with the Beijing Municipal Government enables the Guarantor to manage assets more effectively than its competitors.

BUSINESS STRATEGY

The Guarantor's strategy is to enhance the Guarantor's leading position in its diversified business segments by making attractive investments intended to increase the value of the Guarantor's existing businesses. The Guarantor's strategy consists of the following key elements:

Leveraging natural gas experience and extensive network to exploit new markets and business opportunities

With over five decades of fuel gas management experience and expertise, the Guarantor's wide-reaching natural gas distribution and transmission network supplies residential, industrial, commercial and power generation users in the Greater Beijing city area and other provinces and cities in the PRC. As a leading city natural gas provider in the PRC, the Guarantor is well positioned to extend the Guarantor's distribution network to suburban counties of Beijing and to cover additional provinces and cities in the PRC. The Guarantor expects increased urbanisation, combined with increasing per capita income of urban populations, to contribute to higher natural gas usage per capita among an expanding population base. In the Greater Beijing city area, the Guarantor is extending the Guarantor's network to various districts and counties outside Beijing's Sixth Ring Road. In addition to expanding the capacity and geographic coverage of the Guarantor's natural gas distribution and transmission network, the Guarantor plans to focus on improving the quality of the Guarantor's service and improve the Guarantor's back-office support system. Meanwhile, the Group will continue to explore the business in the sub-centre of Beijing, such as new capital airport, new aerospace city in Daxing or the Universal Studios.

Promoting natural gas as a cleaner alternative for residential, commercial and power generation uses

The PRC government has been encouraging high energy consumption and high emission industries to replace highly-polluting coal and oil gradually with cleaner energy, such as natural gas, to strengthen energy conservation and emission reduction. In January 2021, the Ministry of Ecology and Environment of the PRC urged the formulation of "Action Plan for Peak Emission by 2030（2030年前碳排放達峰行動方案）" to promote green and efficient use of energy in line with the Fourteenth Five-Year Plan, which required local governments to formulate in-detailed comprehensive green and low-carbon action plans for key industries. On 10 March 2021, the Beijing Municipal Government issued the Implementation Plan for Building a Modern Environmental Governance System（北京市關於構建現代環境治理體系的實施方案）for promotion of, among others, emission reduction and clean and low-carbon transformation in terms of energy structure.

Beijing Gas has been actively implementing and will continue contributing to the above policies. For example, Beijing Gas had undertaken reconstructing works of "coal-to-gas conversion" for boilers and "coal-to-gas replacement" projects in villages from 2016 to 2020. Capturing such opportunity will substantially facilitate and enhance natural gas sales by Beijing Gas and China Gas to industrial users and for winter heating consumption.

Adjusting products mix, market and branding strategy of Yanjing Brewery

Since 1999, Yanjing Brewery has expanded beyond its leading position in Beijing to operate 39 breweries in 18 provinces in China, with nationwide sales volume of approximately 3.5 billion litres in 2020. Through Yanjing Brewery's four brands, "Yanjing", "Liquan", "Huiquan" and "Xuelu", Yanjing Brewery has a line of products positioned at different price points catering to different regional markets.

In response to the intensified industry competition, increased operating costs and more stringent energy conservation and emission criteria in the PRC's brewery industry, Yanjing Brewery has focused on the adjustment of its strategies with respect to products, market and branding. Yanjing Brewery intends to raise its income per ton of beer sold by increasing the price of its products and the proportion of the sales of its mid- to high-end beers. Leveraging on its established brand name of "Yanjing", Yanjing Brewery will continue to adjust its market positioning and explore new marketing and distribution channels such as online sales to achieve further growth. In addition, Yanjing Brewery plans to adopt centralised platform for market management, quality control, production/consumption matching and bulk materials sourcing and purchasing. The Guarantor believes that, by continuously optimising market positioning and enhancing brand recognition, Yanjing Brewery will be able to maintain its market position in the PRC's brewery market.

Striving to derive synergistic benefits from investment in China Gas

Historically, the focus of the gas business of the Guarantor has been primarily on the Beijing market. The extensive coverage of the regional businesses of China Gas provides strategic opportunities for the Guarantor to expand its business nationwide. The Guarantor and China Gas intend to jointly develop and invest in city gas projects and nationwide refilling station projects. From 1 April to 30 September 2020, China Gas secured 32 new piped gas projects located in Hebei Province, Jilin Province, Hubei Province, Sichuan Province and Henan Province. The Guarantor and China Gas also intend to jointly develop and invest in gas value-added services. For example, China Gas has established a gas appliances company and launched an e-commerce platform to develop various value-added businesses and services centering on its primary business of sales of gas, including maintenance, renovation and sale of gas appliances and the provision of comprehensive gas insurance agency service. In addition to gas appliances and related products, beer products of Yanjing Brewery are also made available on the e-commerce platform by the Guarantor, with a view to further expanding Yanjing Brewery's sale channels, leveraging the extensive customer base of China Gas.

Leveraging on the integrated business model to accelerate expansion of sewage and water treatment projects of BE Water

BE Water operates on an integrated business model which provides services from design and technical consultancy through construction and operation of sewage and water treatment projects. BE Water's extensive project capabilities enable it to capture the entire value chain from project concept and design stages through construction and operation. Leveraging on its understanding of the PRC government industrial policies and its research and development capabilities, BE Water is able to broaden its sewage and water treatment portfolio through the completion of fully integrated projects that utilise its wide range of capabilities and capture a larger share of the value chain for each project.

BE Water has established business presences in the overseas markets by operating water plants and/or providing construction services for water environmental renovation in Singapore, Portugal, Australia, Malaysia, New Zealand and Botswana. It will continue to evaluate business opportunities arising in the overseas markets from time to time.

Capturing the increasing market potential of the environmental protection industry in the PRC through BE Environment's engagement in solid waste treatment business

BE Environment is primarily engaged in solid waste treatment business and it is currently one of the solid waste treatment platforms of the Guarantor. With the rapid development of the environmental protection industry in the PRC and as waste incineration power generation becomes an optimal waste treatment method, the waste incineration power generation industry in the PRC has great potential to grow. The Group believes that waste incineration power generation will benefit from the standardisation of on-grid electricity tariff pricing policy, provisions of waste treatment subsidy and relevant preferential tax treatment, and will generate steady cash flow with stable and reliable returns. In addition, BE Environment has been exploring related businesses such as hazardous waste treatment to further diversify its businesses.

Capitalising on the substantial industry experience of EEW GmbH as a leading market player in Europe, the Group expects to continue to improve its overall solid waste treatment standard by leveraging on EEW GmbH's advanced technology and techniques and comprehensive system. The Group has commenced collaboration with EEW GmbH by providing technological expertise and operational support to existing waste treatment projects. The Group believes that such strategic cooperation would improve the overall management quality and enhance competitiveness of the Group in the solid waste treatment industry.

BUSINESS SEGMENTS

The following table sets forth the Guarantor's revenues and profits for each business segment for the periods presented:

	Year ended 31 December		
	2018	**2019**	**2020**
		(HK$ in million)	
Revenue			
Natural gas distribution business	48,648.9	47,517.8	48,550.4
Beer business	12,366.7	11,826.3	11,046.4
Water and environmental business	–	–	–
Solid waste treatment business	6,749.2	8,438.9	8,810.6
Corporate and others[1]	–	–	–
Total	67,764.8	67,783.0	68,407.4

	Year ended 31 December		
	2018	**2019**	**2020**
		(HK$ in million)	
Profit/(loss) after tax			
Natural gas distribution and transmission business	6,864.5	6,854.0	5,218.8
Beer business	221.9	222.5	159.6
Water and environmental business	1,897.2	2,026.9	1,720.7
Solid waste treatment business	964.2	1,270.6	(75.2)
Corporate and others[1]	(2,011.2)	(1,800.4)	(1,377.4)
Total	7,936.6	8,573.6	5,646.5

Note:

(1) The Guarantor's corporate and others segment comprises the provision of consultation services, property investment and corporate income and expense items.

The Group recorded a net profit of approximately HK$5,646.5 million for the year ended 31 December 2020, representing a decline by approximately 34.1 per cent. from the net profit of approximately HK$8,573.6 million for the year ended 31 December 2019. Such decline was mainly due to (i) reduction in operating activities, consumption shrinkage and project delay amid the outbreak and spread of COVID-19 across the world, which in particular affected the Group's associates and led to a decrease in the share of profits of associates as recognised by the Guarantor; (ii) the one-off asset value adjustment for Beijing Gas Blue Sky following suspension in trading of shares of Beijing Gas Blue Sky since 18 January 2021; and (iii) the impairment on certain assets for solid waste treatment business resulting from the change in the national electricity tariff subsidy policy implemented in 2020.

Natural Gas Distribution Business

The Group mainly carries out its (i) natural gas distribution business through its wholly-owned subsidiary Beijing Gas and associate China Gas, and (ii) natural gas transmission business through its associate PetroChina Beijing Pipeline Co.

Beijing Gas Group Company Limited

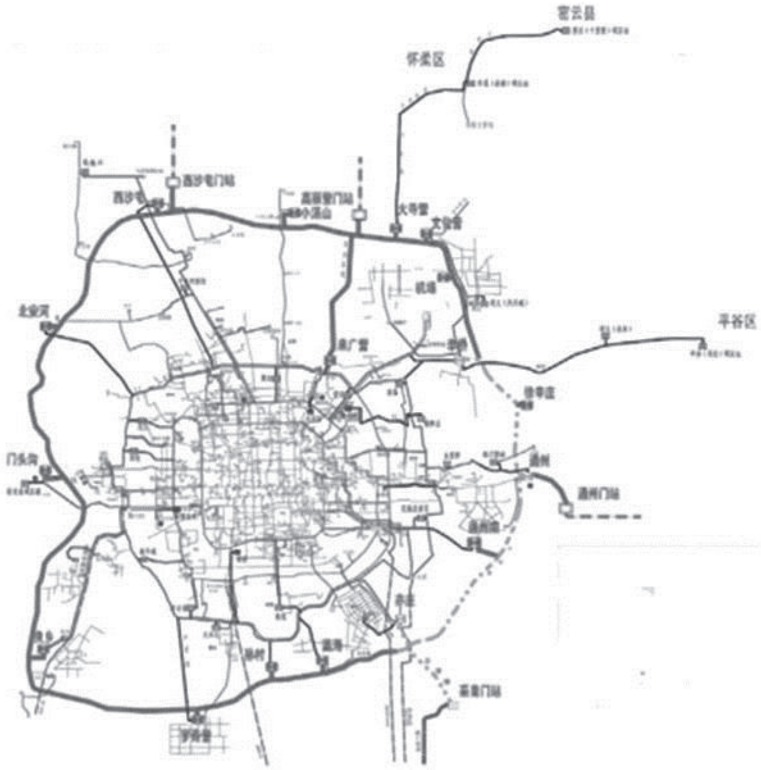
Beijing Gas is the largest single-city gas supplier and service provider in the PRC in terms of volume of natural gas sourced annually, number of customers, length of pipeline network and annual sales as at 31 December 2020. For the year ended 31 December 2020, Beijing Gas recorded a total gas sales volume of 17.1 billion cubic metres, a decrease of 0.8 per cent. over the previous year. Beijing Gas had a total of over 6.5 million piped gas subscribers in Beijing and approximately 25,100 kilometres of natural gas pipelines in operation as at 31 December 2020. Further, in April 2020, Beijing Gas received an approval from NDRC to construct an LNG emergency reserve project (the "**Emergency Reserve Project**") in Binhai New District of Tianjin. The Emergency Reserve Project is consisted of a receiving station, an unloading pier and outbound pipelines. The outbound pipelines have a designed transmission capacity of 4.5 billion cubic metres per year, spanning across both Tianjin City and Hebei Province and ending at Chengnan Station of Beijing. The Emergency Reserve Project is currently under construction and is expected to be completed in 2024.

Pursuant to the concession right granted by the Beijing Municipal Government, Beijing Gas holds an effective monopoly right to distribute natural gas in Beijing until 2032. Upon expiry, the concession right will be subject to re-approval by the relevant governmental authorities.

For the years ended 31 December 2018, 2019 and 2020, revenue from Beijing Gas's natural gas distribution business amounted to HK$48.6 billion, HK$47.5 billion and HK$48.6 billion, respectively. Its capital expenditure for basic pipeline and city gate stations infrastructure in Beijing amounted to HK$4.6 billion, HK$2.7 billion and HK$2.9 billion for the years ended 31 December 2018, 2019 and 2020, respectively.

In addition, Beijing Gas is rated "A3" by Moody's, "A-" by S&P and "A" by Fitch Inc.

The following map sets out Beijing Gas's natural gas distribution network in Beijing:



To strengthen Beijing Gas's presence in the gas industry chain, Beijing Gas will continue to extend Beijing Gas's market coverage to the suburban counties of Beijing by way of selective acquisitions and mergers with smaller companies with strong local presences, resources and experience in gas projects.

Upstream and downstream integration

Beijing Gas sources its gas mainly from PetroChina. Through its 40.0 per cent stake in PetroChina Beijing Pipeline Co., Beijing Gas is able to source gas for the Beijing, Tianjin and Hebei regions directly from gas fields in Changqing, one of the largest operating natural gas fields in the PRC, using the Shaanxi-Beijing lines. Given the proximity of the Changqing gas fields to Beijing-Tianjin-Hebei region, together with the strategic alliance established between Beijing Gas and PetroChina, Beijing Gas has been able to secure a stable source of gas at relatively competitive prices. Beijing Gas plans to continue to expand both its upstream and downstream businesses. See "– *Planned expansion*".

Pricing

The price of natural gas for residential and non-residential users in Beijing is fixed by Beijing Municipal Commission of Development and Reform. Based on the Management Method for Beijing Piped Natural Gas Distribution Tariff (《北京市管道天然氣配氣價格管理辦法》), effective from 1 August 2018, the distribution tariff is calculated and determined by adding a permitted after-tax rate of return not exceeding 7.0 per cent. to the costs of depreciation, operation and maintenance of self-owned pipelines of the gas distributor.

The city gate price, paid by city gas distributors to upstream suppliers, is regulated by the NDRC. The city gate price includes the ex-plant price plus the transportation tariff. The NDRC determines the transportation tariff for national long distance transmissions and the provincial price control bureaus regulate the transportation tariff for provincial pipelines. The transportation tariff is calculated based on cost of pipelines, distance between city gates and gas source and includes a permitted return of 8.0 per cent.

Seasonal demand

Gas consumption by residential, commercial and industrial users in Beijing is seasonal. Natural gas demand peaks during October to March and slackens during the warm season, which typically lasts from May to September. To smooth seasonal fluctuations in the demand for and consumption of natural gas in Beijing, Beijing Gas extended its customer base to users involved in heat-electricity co-generation and gas cooling.

Government regulation

Beijing Gas believes favourable government policies towards the natural gas industry will promote its growth. The PRC government targets raising natural gas usage in the primary energy mix to 15.0 per cent. by 2030. This is expected to substantially increase the proportion of natural gas usage in the primary energy mix over the next several years.

Concession and key contracts

According to notices from the Beijing Municipal Government dated 16 August 2005 and 21 April 2006, respectively, and an implementation plan (《北京燃氣有限公司管道天然氣特許經營項目實施方案》) agreed in principle by Beijing People's Government in 2006, the Group was given a right to exclusively operate the natural gas network in Beijing for 25 years. According to the Concession Measures, the concession right of operating a natural gas network in an urban area of a city county or province has a maximum duration of 30 years. On 22 January 2007, the Beijing Municipal Administration Commission issued the natural gas operation permit (《北京市燃氣經營許可證》) to the Group officially granting it the concession right for operating the urban natural gas pipeline networks of Beijing.

Planned expansion

Based on Beijing Gas's effective monopoly right to supply natural gas in Beijing until 2032 and based on its expansion plans, Beijing Gas intends to upgrade its operational standards and proactively develop its residential, commercial and industrial user base in Beijing so as to increase sales volume. Beijing Gas plans to increase the distribution and transmission of natural gas in the suburban areas of Beijing based on the existing pipeline network.

Beijing Gas has been building the inner city infrastructure for gas supply from No.3 and No.4 pipelines and from Phase II of the Sixth Ring Road Gas Project. It is also involved in building ancillary infrastructure facilities for the four thermal power centres in Beijing. In addition, Beijing Gas has been actively participating in the construction of gas market in Xiong'an New Area, a state-level new area located in Hebei Province which is expected to serve as a development hub for the Beijing-Tianjin-Hebei economic triangle and where the "non-core" capital functions of Beijing are expected to migrate. Beijing Gas is also currently involved in the construction of several projects including the intelligence gas project of Beijing sub-centre and the energy centre project of Universal Studios in Beijing.

Beijing Gas will continue to actively develop markets outside Beijing with an emphasis on various gas segments including pipeline gas, LNG and CNG. By seizing the integrated opportunities of Beijing, Tianjin and Hebei, it will carry forward the LNG projects in Tianjin and Hebei and aim to establish its dominant position in the gas distribution market, thereby solidifying its market leading position in the domestic clean energy sectors. Beijing Gas will also continue to strengthen the development of the vehicle gas market. By leveraging on its market position in Beijing, Beijing Gas plans to develop relationships with new customers such as logistics enterprises.

China Gas Holdings Limited

The Guarantor has a 23.7 per cent. equity interest in China Gas as at 31 December 2020. The shares of China Gas are listed on the main board of the Hong Kong Stock Exchange (stock code: 384). China Gas is a gas operator and service provider primarily engaged in the investment, construction and operation of city gas pipeline infrastructure facilities, gas terminals, storage and transportation facilities, gas logistics systems, transmission of natural gas and LPG to residential, industrial and commercial customers, construction and operation of natural gas refilling stations for vehicles as well as the development and application of technologies relating to petroleum, natural gas and LPG in China. China Gas's gas business is divided into two segments, namely the natural gas segment and the LPG segment, which cater for the needs of different customer groups and require different market development strategies. Its customers are mainly classified into residential customers, industrial and commercial customers. As at 30 September 2020, China Gas provided approximately 37.9 million residential households and 0.3 million industrial and commercial customers with piped natural gas services. Its other customers include CNG/LNG refilling stations.

By connecting its networks with urban arterial and branch pipelines, China Gas is able to supply residential as well as industrial and commercial customers, from whom initial connection fees and gas usage fees are charged.

As at 30 September 2020, China Gas provided piped natural gas supply in a number of cities across the PRC, and has constructed gas transmission pipeline networks with a total length of 447,179 kilometres and 636 piped-gas projects with a potential to serve approximately 45,785,000 households. As at 30 September 2020, China Gas owned 556 natural gas refilling stations in 30 provinces in the PRC (including autonomous regions and municipalities.

China Gas currently owns 113 LPG distribution projects. Under China Gas's LPG development strategy, midstream wholesale business forms the basis, while downstream end-user business constitutes the core of the LPG profits. China Gas is expediting the establishment of customer service centres and improving logistics and distribution systems to enhance its service capabilities. It has also undertaken a structural reorganisation of its non-core assets, including existing terminals and storage facilities to boost organisational vitality.

China Gas pursues additional revenue generation through value-added advertising, sales of gas appliances, and cooperation with major domestic insurance companies to develop the city gas insurance services market. In addition, after years of market research and technological innovation, major customers are provided with highly efficient and comprehensive energy solutions in relation to heating, electricity and cooling.

Natural Gas Transmission Business

PetroChina Beijing Gas Pipeline Co., Ltd.

The Guarantor owned a 40.0 per cent. equity interest in PetroChina Beijing Pipeline Co. as at 31 December 2020. PetroChina Beijing Pipeline Co. provides natural gas transmission services from Changqing Oilfield, the largest oil and gas field in the PRC, to Beijing, Tianjin and Hebei regions through Shaanxi-Beijing pipelines. PetroChina Beijing Pipeline Co. transmitted 49.4 billion cubic metres, 51.9 billion cubic metres and 49.3 billion cubic metres of natural gas for the years ended 31 December 2018, 2019 and 2020, respectively.

PetroChina Beijing Pipeline Co.'s existing four Shaanxi-Beijing pipelines give a total transmission capacity of 60.0 billion cubic metres per annum.

Each of the Shaanxi-Beijing No.1, No.2 and No.3 pipelines is approximately 900 kilometres in length and has an annual transmission capacity of 3.0 billion, 17.0 billion and 15.0 billion cubic metres per annum, respectively. The Shaanxi-Beijing No.1 pipeline supplies the Beijing, Tianjin, Yanshan, Canghua and Hebei regions, the No.2 pipeline supplies the main city areas in Beijing, Tianjin, Shaanxi, Hebei and Shandong and the No.3 pipeline supplies gas to the Bohai rim, Shandong, Beijing and the north-east grid of Liaoning. The No.4 Shaanxi-Beijing pipeline is approximately 1,100 kilometres in length and has an annual transmission capacity of 25.0 billion. It has commenced operation in 2017 and supplies gas to Beijing, the north-east grid of Liaoning and the Bohai rim.

Beijing Gas Blue Sky Holdings Limited

The Guarantor owned a 41.1 per cent. equity interest in Beijing Gas Blue Sky as at 31 December 2020. The shares of Beijing Gas Blue Sky are listed on the main board of the Hong Kong Stock Exchange (stock code: 6828). Beijing Gas Blue Sky is an integrated natural gas provider and operator focusing on the mid-to downstream segment development of the natural gas industry chain. It is primarily engaged in development and operation of city gas projects, supply of LNG to industrial end users, trading and distribution of CNG and LNG as well as operating CNG and LNG refilling stations for vehicles.

As at 30 June 2020, Beijing Gas Blue Sky owned a total of 27 gas refilling stations mainly covering Hainan Province, Anhui Province, Shandong Province, Guizhou Province, Jilin Province, Shanxi Province and Liaoning Province. Beijing Gas Blue Sky also owned eight city gas projects in Shanxi Province, Jilin Province, Liaoning Province and Hubei Province. The geographical coverage of trading and distribution business operated by Beijing Gas Blue Sky includes Shandong Province, Hainan Province, Anhui Province and Zhejiang Province.

Verkhnechonskneftegaz

VCNG is an associate of the Guarantor in which the Guarantor owned a 20.0 per cent. equity interest as at 31 December 2020. VCNG is a subsidiary of Rosneft and is principally engaged in exploring, appraising, developing, producing and marketing oil, gas and condensate field in Russia. For the years ended 31 December 2018, 2019 and 2020, VCNG's sold 8.2 million tons, 7.8 million tons and 7.4 million tons, respectively, of petroleum and as a result of which the Guarantor shared an operating profit (after tax) of HK$1.4 billion, HK$1.2 billion and HK$0.7 billion, respectively, through its equity interest in VCNG.

The Guarantor's investment in VCNG provides a strategic platform for the Group to expand its business along the value chain into the upstream sector of oil and gas supply through obtaining a share in one of East Siberia's largest producing fields with a developed infrastructure. The investment further enhances the Group's industry position in the gas distribution sector.

Beer Business

The Group mainly carries out its beer business through its subsidiary Yanjing Brewery. The Guarantor had a 57.4 per cent. interest in Yanjing Brewery as at 31 December 2020. The shares of Yanjing Brewery are listed on the Shenzhen Stock Exchange (stock code: 000729). Established in 1980, Yanjing Brewery is one of the largest breweries in Asia and top ten breweries in the world based on sales volume as at 31 December 2020. For the year ended 31 December 2020, the total beer sales volume of Yanjing Brewery was 3.5 billion litres, of which, the sales volume of Yanjing Brewery's "1+3" brands ("Yanjing" plus "Liquan", "Huiquan" and "Xuelu" brands) was 3.3 billion litres, representing approximately 92.1 per cent. of the total sales volume. Yanjing Brewery was ranked one of "China's 500 Most Valuable Brands of 2020" by World Brand Lab, with a brand value of approximately RMB132.6 billion.

Yanjing Brewery has a diverse portfolio of brands targeting different regions and price points. The Group believes "Yanjing" beer is a national core brand and falls into the high-end to medium-price category. "Liquan" beer is mainly marketed and distributed in Guangxi Province in southern China, "Huiquan" beer in Fujian Province in eastern China and "Xuelu" beer in Inner Mongolia Autonomous Region in northern China. Other than Yanjing, all of its other products are mass market products.

Products

Yanjing Brewery produces various types of beer and other beverages, such as mineral water, soft drinks, juices and wine, for consumption in the PRC. Yanjing Brewery increases its production capacity by organic growth as well as through selective acquisitions.

Yanjing Brewery produces beer of 8, 10, 11 and 12 degrees plato (which measures the sugar content of the beer) and its key products include the "10 Degree Light" beer, "10 Degree Fresh" beer, "12 Degree Original Weissbier", and "10 Degree Chunsheng (Pure Draft)" beer. Yanjing Brewery's products have won numerous national and international awards. Also, it participated as a sponsor in the 2008 Olympic Games and has been named as a sponsor for the 2022 Winter Olympic Games to be held in Beijing.

Yanjing Brewery has been focusing on product upgrade and structure optimisation in the recent years. Adapting to the industry trend and the culture of younger generations, Yanjing Brewery has been actively developing new products to realise brand rejuvenation targeting the higher end of the market. For instance, Yanjing Brewery successfully launched Yanjing U8 tinned nationwide in 2019, a product targeting younger generation with its innovative product design and marketing channels focusing on social media and Internet.

Raw materials

The principal raw materials for brewery products are water, malt, rice, and hops. Yanjing Brewery primarily sources rice and hops from local farmers in the PRC and water from Yanjing Brewery's own underground spring located near its production facilities in Beijing and from local water sources in other areas. Yanjing Brewery sources a portion of its rice requirement from international sources. It has not experienced shortage of any main raw materials or any disruption in the supply of such raw materials. Due to Yanjing Brewery's high production volumes, the Guarantor believes Yanjing Brewery is able to source raw materials in bulk at lower prices as compared to prevailing market rates for smaller quantities, thereby leveraging on its economies of scale.

Production and quality control

Yanjing Brewery adheres to a strict system of quality control over its brewery operations. It employs a team of technicians that monitors the production quality at various stages of the production process, including on-site yeast propagation, testing for oxidation and unwanted bacteria, sampling products for taste and freshness, and ensuring that cans and bottles are properly cleaned, sterilised and filled at the correct pressure, temperature and volume. Yanjing Brewery also maintains a strong focus on research and development. Its research and development team is responsible for designing new technology, developing new products, enhancing quality control measures and optimising production efficiency.

Sales, marketing and distribution

Yanjing Brewery has five core markets in the PRC, namely Beijing, Guangxi Province, Fujian Province, Hubei Province and Inner Mongolia Autonomous Region. Yanjing Brewery utilises a three-tier distribution structure that includes a network of distributors, wholesalers and retailers. Yanjing Brewery's local distributor network includes state-owned cigarette and alcohol distribution companies, collective distributors and individual wholesalers. Yanjing Brewery also sells brewery products directly to restaurants and bars. The Guarantor believes Yanjing Brewery's diversified distribution network maximises product exposure and minimises dependence on any single wholesaler or distributor. Yanjing Brewery chooses distributors in each market that will devote attention and resources to the promotion and sale of its products in developing such markets.

Yanjing Brewery is focused on increasing its brand value in both domestic and international markets. It has taken steps to standardise brand operations and management, maintain its strong market position in core markets and expand in rural and international markets. Yanjing Brewery plans to achieve its future sales and production targets by constructing green field plants, making selective acquisitions and upgrading existing facilities.

Water and Environmental Business

The Group mainly carries out its water and environmental business through its associate BE Water. The Guarantor held a 41.1 per cent. equity interest in BE Water as at 31 December 2020. The shares of BE Water are listed on the main board of the Hong Kong Stock Exchange (stock code: 371). BE Water is principally engaged in (i) water treatment services (comprising sewage and reclaimed water treatment services and water distribution services), (ii) construction services for water environmental renovation projects, and (iii) technical services and sale of machineries for water environmental renovation. As at 31 December 2020, the coverage of water plants invested and/or operated by BE Water extended to 20 provinces, five autonomous regions and three municipalities across the PRC as well as in Singapore, Portugal, Australia, Malaysia, New Zealand and Botswana.

For the years ended 31 December 2018, 2019 and 2020, BE Water's revenue amounted to HK$24,596.9 million, HK$28,192.5 million and HK$25,360.6 million, respectively. Profit attributable to shareholders of BE Water were HK$4,471.3 million, HK$4,925.7 million and HK$4,183.5 million for the years ended 31 December 2018, 2019 and 2020, respectively. Profit attributable to the Group were HK$1,897.2 million, HK$2,026.9 million and HK$1,720.7 million for the years ended 31 December 2018, 2019 and 2020, respectively. BE Water's total assets reached HK$126,380.7 million, HK$151,160.9 million and HK$174,401.1 million as at 31 December 2018, 2019 and 2020, respectively.

Water Treatment Services

As at 31 December 2020, BE Water had entered into service concession arrangements and entrustment agreements for a total of 1,334 water plants including 1,115 sewage treatment plants, 174 water distribution plants, 43 reclaimed water treatment plants and two seawater desalination plants. The total daily design capacity for BE Water increased from 39,388,882 tons as at 31 December 2019 to 42,124,736 tons as at 31 December 2020. The aggregated daily design capacity for new projects secured during the year ended 31 December 2020 was 3,801,454 tons; including BOT projects of 413,000 tons, TOT projects of 60,000 tons, public-private partnership projects of 2,414,112 tons, entrustment operation projects of 889,342 tons and 25,000 tons through merger and acquisition.

The following table sets forth certain information in relation to BE Water's water treatment services as at or for the year ended 31 December 2020:

	Number of plants	Design capacity	Actual processing volume(1)
		(Tons per Day)	(Tons (in million))
Sewage and reclaimed water treatment services:			
Mainland China			
Southern China	313	3,700,490	1,137.8
Western China	173	2,190,200	591.3
Shandong	39	1,879,000	533.8
Eastern China	88	4,504,200	1,270.7
Northern China	85	3,102,547	902.2
	698	15,376,437	4,435.8
Overseas	52	496,708	103.7
Subtotal	750	15,873,145	4,539.5
Water distribution services:			
Mainland China	111	9,276,194	1,849.5
Overseas(2)	37	1,373,864	186.6
Subtotal	148	10,650,058	2,036.1
Total	898	26,523,203	6,575.6

Notes:

(1) Excluding entrustment operation contracts

(2) Including a seawater desalination plant

Sewage and reclaimed water treatment services

Details of BE Water's sewage and reclaimed water treatment services are set out below.

Treatment process

While specific processes and technologies deployed in sewage treatment vary by different projects and industries and in accordance with the specific requirements of each of BE Water's customers, the sewage treatment process typically begins with the pre-treatment of the waste water to remove large solid materials in the raw waste water. Waste water is then transferred to a sedimentation tank where smaller solid waste and sludge are separated from the waste water by sedimentation. The waste water is then discharged into biochemical pools where oxidation ditches are used to introduce an optimal level of oxygen to encourage the growth of micro-organisms that consume organic pollutants in the waste water. Separation of sludge from waste water is then conducted at a secondary sedimentation stage. The treated waste water is disinfected to kill harmful micro-organisms before being reintroduced into the environment or otherwise being reused. Some separated sludge flows back into the biochemical pool to maintain a sufficient level of micro-organisms, while the residual sludge from the treatment process is sent to sludge landfill sites for disposal.

BE Water designs and constructs facilities that remove pollutants from water and sewage using multiple processes, including the application of chemicals and biological agents and the use of physical processes. BE Water has developed several proprietary technologies designed to enhance existing technologies for the treatment of sewage and water from different sources and across industries. BE Water adapts and deploys these technologies in various combinations according to the specific requirements of its customers and the project type. For example, BE Water developed LIER-POOLK technology, for which it has registered a patent, for the treatment of industrial sewage containing toxic materials and high concentrations of ammonia nitrogen and tar. This technology is highly effective and cost efficient in removing sulphur oxide, oil, ammonia nitrogen and organic materials from industrial waste water. BE Water's LIER-POOLK waste treatment technology was awarded with Grade A quality certificates issued by the Ministry of Housing and Urban-Rural Development, the Ministry of Environmental Protection and the NDRC in the PRC.

Treatment plants in Mainland China

As at 31 December 2020, BE Water had 679 sewage treatment plants and 19 reclaimed water plants in operation in Mainland China. The total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached to 14,197,237 tons and 1,179,200 tons, receptively. In 2020, the average daily processing volume was 12,425,755 tons and average daily treatment rate is 85.0 per cent. The actual average contracted tariff charge of water treatment was approximately RMB1.28 per ton for water plants. The actual aggregated processing volume in 2020 was 4,435.8 million tons. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

(a) Southern China

Sewage treatment plants of BE Water in southern China were mainly located in Guangdong Province, Hunan Province, Fujian Province and Shaanxi Province. As at 31 December 2020, BE Water operated 313 sewage treatment plants in southern China with a combined daily design sewage treatment capacity of 3,700,490 tons, representing an increase of 63,350 tons per day, or 2.0 per cent., as compared with 3,637,140 tons per day in 2019. In 2020, the actual aggregated processing volume was 1,137.8 million tons.

(b) Western China

Sewage treatment plants of BE Water in western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 31 December 2020, BE Water operated 173 sewage treatment plants in western China with a combined daily design sewage treatment capacity of 2,190,200 tons, representing an increase of 245,200 tons per day, or 13.0 per cent., as compared with 1,945,000 tons per day in 2019. In 2020, the actual aggregated processing volume was 591.3 million tons.

(c) Shandong

As at 31 December 2020, BE Water operated 39 sewage treatment plants in the Shandong region with a combined daily design capacity of 1,879,000 tons, representing an increase of 90,000 tons per day, or 5.0 per cent., as compared with 1,789,000 tons per day in 2019. In 2020, the actual aggregated processing volume was 533.8 million tons.

(d) Eastern China

Sewage treatment plants of BE Water in eastern China were mainly located in Zhejiang Province, Jiangsu Province, Henan Province and Anhui Province. As at 31 December 2020, BE Water operated 88 sewage treatment plants in eastern China with a combined daily design capacity of 4,504,200 tons, representing an increase of 368,700 tons per day, or 9.0 per cent., as compared with 4,135,500 tons per day in 2019. In 2020, the actual aggregated processing volume was 1,270.7 million tons.

(e) Northern China

Sewage treatment plants of BE Water in northern China were mainly located in Liaoning Province and Beijing. As at 31 December 2020, BE Water operated 85 sewage treatment plants in northern China with a combined sewage treatment capacity of 3,102,547 tons per day, representing an increase of 360,000 tons per day, or 13.0 per cent. as compared with 2,742,547 tons per day in 2019. In 2020, the actual aggregated processing volume was 902.2 million tons.

Treatment plants overseas

As at 31 December 2020, BE Water had 47 sewage treatment plants and five reclaimed water plants in Portugal, Singapore and Australia. The total daily design sewage treatment capacity in operation for 2020 was 496,708 tons. In 2020, the actual aggregate processing volume was 103.7 million tons.

Water distribution service

BE Water uses chemical and biological processes to treat and purify raw water at its waterworks facilities before supplying the water for general consumption.

Distribution plants in Mainland China

As at 31 December 2020, BE Water had 111 water distribution plants in operation. The total daily design capacity in operation was 9,276,194 tons. The plants were mainly located in Guizhou Province, Fujian Province, Guangdong Province, Hunan Province, Hebei Province, Shandong Province, Henan Province and Guangxi Province and Inner Mongolia Autonomous Region. The actual average contracted tariff charge of water distribution is approximately RMB2.04 per ton. In 2020, the actual aggregated processing volume was 1,849.5 million tons.

Distribution plants overseas

As at 31 December 2020, the Group had 36 water distribution plants and one sea desalination plant in Portugal and Australia with a total daily design water distribution capacity in operation of 1,373,864 tons. In 2020, the actual aggregated processing volume for the year was 186.6 million tons.

Business models

BE Water mainly conducts its sewage and reclaimed water treatment services and water distribution services under service concession arrangements. BE Water has entered into a number of service concession agreements with certain government authorities in the PRC on a BOT or TOT basis in respect of its sewage treatment and water distribution projects. Under the service concession agreements for BOT or TOT projects, BE Water is generally entitled to use all the property, plant and equipment of the water plants while the relevant local government authorities as grantors control and regulate the scope of services BE Water provides, and retain the beneficial entitlement to any residual interest in the water plants at the end of the term of the service concession periods.

Under the BOT project model, BE Water enters into a service concession arrangement with a local government regarding the investment, construction and operation of a proposed water plant. BE Water finances the construction of the relevant plant with a combination of bank borrowings and its internal resources. BE Water is granted the right to operate the relevant plant during the concession period, which typically ranges between 20 to 40 years for most of its BOT projects, and is entitled to fees from its customers, normally local government authorities or government related investment entities, during the concession period to cover the costs of investment, construction, operation and maintenance and to provide BE Water with reasonable returns. After expiration of the concession period, BE Water transfers the relevant plant back to its customers without compensation.

The TOT project model differs from the BOT project model in that BE Water does not construct the relevant plant. BE Water acquires the concession rights for the relevant plant, which has already been constructed for an agreed consideration. Similar to the BOT project model, BE Water is entitled to fees from its customers, normally local government authorities or government related investment entities, during the concession period to cover the costs of investment, operation and maintenance and to provide BE Water with reasonable returns. The concession periods of most of BE Water's TOT projects generally range between 20 to 40 years. After expiration of the concession period, BE Water transfers the relevant plant back to its customers without compensation.

Under a BOO project model, BE Water finances the investment, construction and operation of its own plants by a combination of bank borrowings and its internal resources. Unlike a BOT or TOT project, BE Water does not transfer the plant to a third party. BE Water is generally entitled to fees from its customers, normally local government authorities or government related investment entities, to cover the costs of investment, construction, operation and maintenance and to provide BE Water with reasonable returns.

Construction services for water environmental renovation

BE Water's construction projects for water environmental renovation primarily comprise comprehensive renovation projects and BOT projects:

Comprehensive renovation projects

BE Water provides construction services on a comprehensive renovation basis for the design, construction and installation of water or sewage treatment facilities and pipeline networks for its customers at a fixed contract price (subject to agreed variation orders). Upon completion, BE Water delivers the project to its customers for their operation and bears no further responsibility for the maintenance or repair of the facilities. BE Water's comprehensive renovation projects typically take between two to three years to complete. BE Water recognises revenue from its comprehensive renovation projects on the basis of the percentage of completion commencing when a legally binding contract is executed and when the total construction costs of the facilities under development can be reliably estimated. The Group's comprehensive renovation projects primarily involve the construction of an intercepting canal and its ancillary facilities, water environmental renovation facilities, pipeline networks and other infrastructure. As at 31 December 2020, BE Water had 27 comprehensive renovation projects under construction. These projects are mainly located in Zhejiang Province, Sichuan Province, Hebei Province and Inner Mongolia Autonomous Region.

BOT projects

BE Water has entered into a number of service concession contracts on a BOT basis for its construction services. For BOT projects, BE Water typically designs and constructs sewage and water treatment facilities and operates the facilities for a contractually agreed period of 20 to 40 years. BE Water bears all relevant design, construction and operating costs of the treatment facilities and does not receive payments from customers during the construction stage of the projects. Upon commencement of operations, BE Water receives regular, usually monthly, payments from the local government based on a contractually agreed tariff and the volume of water. BE Water is responsible for all repair and maintenance costs during the term of the concession. At the end of the agreed concession period, BE Water is required to transfer the treatment facilities to the local government.

As at 31 December 2020, water environmental renovation projects under construction on a BOT basis are mainly located in Shandong Province, Henan Province, Zhejiang Province, Hunan Province, Sichuan Province and Ningxia Province.

Technical services and sales of machineries for water environmental renovation

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

Solid Waste Treatment Business

The Guarantor operates its solid waste treatment business mainly through its subsidiaries BE Environment, BEHET and EEW GmbH. The Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Plant Project and Beijing Gaoantun Waste Incineration Project operated by BE Environment accounted for the largest market share of solid waste treatment projects in Beijing of 20.6 per cent., in terms of volume of waste treated, as at 31 December 2020.

As at 31 December 2020, the Group had a waste incineration and power generation capacity of 29,932 tons per day, among which BE Environment and BEHET had a waste incineration and power generation capacity of 16,325 tons per day. As at the same date, the Group had a hazardous waste treatment capacity of 115,000 tons per year. For the year ended 31 December 2020, the Group completed the treatment of solid waste of 4.7 million tons and accomplished an on-grid power generation of 1.5 billion kilowatt-hour ("**kWh**") in the PRC. For the year ended 31 December 2020, EEW GmbH treated 4.8 million tons of waste, and sold 1.8 billion kWh of electricity, 887.0 million kWh of heat and 2.1 billion kWh of steam.

BE Environment

The Guarantor held a 50.4 per cent. equity interest in BE Environment as at 31 December 2020. The shares of BE Environment are listed on the main board of the Hong Kong Stock Exchange (stock code: 154). BE Environment is engaged in environmental protection business focusing on solid waste treatment. As at 31 December 2020, BE Environment operated nine solid waste treatment projects, including eight household waste incineration power generation projects with total waste treatment capacity of 10,225 tons per day, and one hazardous waste treatment project with waste treatment capacity of 35,000 tons per year. For the years ended 31 December 2018, 2019 and 2020, BE Environment achieved an operating revenue of HK$1,270.1 million, HK$1,384.1 million and HK$1,790.6 million, respectively and realised a profit after tax of HK$281.4 million, HK$220.3 million and HK$155.4 million, respectively.

For the year ended 31 December 2020, BE Environment has treated 3,300,000 tons of household waste, representing a decrease of 5.4 per cent. as compared to 3,490,000 tons for the year ended 31 December 2019, as a result of the adverse impact of COVID-19 and the promotion of waste sorting in major cities in the PRC. For the year ended 31 December 2020, BE Environment treated other types of wastes including hazardous waste of 11,500 tons, leachate of 96,600 tons, sludge of 120,100 tons and food waste of 253,000 tons. Total electricity generated by BE Environment was 1,270.5 million kWh for the year ended 31 December 2020, representing an increase of 6.8 per cent. as compared to 1,190.0 million kWh for the year ended 31 December 2019. Total on-grid electricity generated by BE Environment was 1,037.8 million kWh for the year ended 31 December 2020, representing an increase of 6.3 per cent. as compared to 976.0 million kWh for the year ended 31 December 2019.

The following table sets forth a summary of the solid waste treatment projects currently operated by BE Environment:

Project Name	Location	Operation Mode and Licensed Period	Waste treatment capacity
Household waste treatment projects			
Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Plant Project (北京市海澱區循環經濟產業園再生能源發電廠項目)	Haidian district of Beijing	BOT basis for a licensed period of 30 years from 2018 to 2048	2,100 tons per day
Beijing Gaoantun Waste Incineration Project (北京高安屯垃圾焚燒項目)	Chaoyang district of Beijing	BOT basis for a licensed period of 30 years from 2005 to 2034	1,600 tons per day
Ha'erbin Shuangqi WTE Project (哈爾濱雙琦垃圾焚燒發電項目)	Ha'erbin of Heilongjiang Province	Phase 1 and 2: BOT basis for a licensed period of 30 years from 2013 to 2043	1,600 tons per day
Changde Household WTE Project (常德市生活垃圾焚燒發電項目)	Changde economic and technological development zone of Hunan Province	Phase 1: BOT basis for a licensed period of 27 years from 2010 to 2037 Phase 2: Not yet finalised	1,400 tons per day
Taian Household WTE Project (泰安生活垃圾焚燒發電項目)	Taian of Shandong Province	Phase 1: BOO basis for a licensed period of 30 years from 2008 to 2038 Phase 2: Not yet finalised	1,200 tons per day
Jiangsu Shuyang WTE Project (江蘇省沭陽縣垃圾焚燒發電項目)	Shuyang county of Jiangsu Province	Phase 1: BOT basis for a licensed period of 30 years from 2015 to 2045 Phase 2: BOT basis for a licensed period of 30 years from 2018 to 2048	1,200 tons per day
Zhangjiagang Household WTE Plant Project (張家港市生活垃圾焚燒發電廠項目)	Zhangjiagang of Jiangsu Province	Phase 1: BOO basis for a licensed period of 30 years from 2008 to 2038 Phase 2: BOO basis for a licensed period of 30 years from 2014 to 2044	900 tons per day
Wenchang Household WTE Plant Project (文昌市生活垃圾焚燒發電廠項目)	Wenchang of Hainan Province	BOT basis for a licensed period of 15 years from 2012 to 2027	225 tons per day
Hazardous waste treatment project			
Hunan Hengyang Hazardous Waste Treatment Project (湖南省衡陽危險廢物處置中心項目)	Hengyang of Hunan Province	BOT basis for a licensed period of 25 years from 2017 to 2042	35,000 tons per year

BEHET

The Guarantor held a 100.0 per cent. equity interest in BEHET as at 31 December 2020. Different from BE Environment which mainly focuses on projects at mature stage, BEHET is engaged in the investment, construction and operation of solid waste treatment projects at incubation stage in the PRC. As at 31 December 2020, BEHET held a total of 11 solid waste treatment projects, comprising (i) seven household waste treatment projects including the Beijing Huairou Project, Heilongjiang Zhaodong Project, the Beijing Fangshan Project, and other four projects located in Xixian New Area of Shaanxi Province, Xianyang of Shaanxi Province, Siping of Jilin Province and Wuhan of Hubei Province; and (ii) four hazardous waste treatment projects located in Chaoyang district of Beijing, Changzhou of

Jiangsu Province, Ordos of Inner Mongolia and Huaian of Jiangsu Province. For the years ended 31 December 2018, 2019 and 2020, BEHET achieved an operating revenue of HK$253.0 million, HK$258.0 million and HK$657.0 million, respectively.

EEW GmbH

In March 2016, through market bidding, the Group acquired the entire stake in EEW Holding GmbH and M+E Holding GmbH & Co. KG, which together held 100.0 per cent. equity interest of EEW GmbH, a leading energy-from-waste company in Europe headquartered in Germany with an approximately 28.0 per cent. market share in Germany. EEW GmbH is principally engaged in the supply of electricity, steam and heat from waste and operates a portfolio of 18 energy-from-waste plants located in Germany and neighbouring countries. For the years ended 31 December 2018, 2019 and 2020, EEW GmbH recorded an operating revenue of HK$5.1 billion, HK$5.3 billion and HK$5.6 billion, respectively. For the year ended 31 December 2020, EEW GmbH accomplished a waste treatment volume of 4.8 million tons, sales of electricity of 1.8 billion kWh, sales of heat of 887.0 million kWh and sales of steam of 2.1 billion kWh.

The acquisition of EEW GmbH provides a platform for the Group to expand its operational scale and consolidate and enhance its industry position in the solid waste treatment business. Capitalising on the substantial industry experience of EEW GmbH as a leading market player in Europe, the Group has been improving its overall solid waste treatment standard by leveraging on EEW GmbH's advanced technology and techniques and comprehensive system, which will in turn lay the foundation for sustainable operation returns.

Business model of household waste treatment projects

The project company generally enters into a concession agreement in respect of its household waste treatment project with the relevant local governmental authority, pursuant to which the relevant project company obtains rights to operate the facilities of the household waste treatment projects for the treatment of household waste. The project company generates income by collecting (i) waste treatment fees for waste-incineration treatment of household waste, and (ii) on-grid tariffs from the sale of waste-generated electricity to grid companies.

Business model of hazardous waste treatment projects

The project company typically obtains requisite operation permit(s) from the local governmental authority for rights to operate the relevant project facilities and to handle hazardous waste within a specified area. The project company generally enters into treatment agreements with organisations that generate hazardous waste and collects waste treatment fees for treatment of hazardous waste.

COMPETITION

As a key utilities investment and operating platform of Beijing SASAC, the Group benefits from its close relationship with the PRC government in natural gas distribution and transmission business, water and environmental business and solid waste treatment business, which are usually conducted under concession agreements and licences. Currently, the Group holds the concession right and enjoys effective monopoly in natural gas distribution in Beijing, and therefore faces minimum competition in this aspect.

The Group faces more intense competition mainly with respect to its other businesses, such as beer business. The brewery industry in the PRC has gone through initial consolidation in 2016 but is still highly fragmented with approximately over 100 brewers. Yanjing Brewery's main competitors in the PRC include domestic and international breweries, as well as numerous local breweries. Yanjing Brewery expects competition in the brewery industry to continue to intensify as leading breweries compete against each other to acquire local and regional breweries to increase their market share. Competition is primarily based on brand recognition, product quality and taste, packaging, price and distribution capabilities. The Guarantor believes Yanjing Brewery is well placed to capitalise on the strength of the "Yanjing" brand name, market leadership in the Beijing beer market, product quality and broad distribution channels to maintain its leading position in Beijing and increase its presence in other markets in the PRC.

EMPLOYEES

As at 31 December 2020, the Group employed approximately 39,000 employees, substantially all of whom are located in the PRC and Hong Kong. Staff benefits include salaries, provident fund, insurance and medical cover, housing and share option schemes. The Guarantor believes its employees are critical to the Guarantor's success and the Guarantor is committed to investing in the development of such employees through continuing education and structured training, as well as the creation of opportunities for career growth. The Group considers its current relations with its workforce to be good. As at the date of this Offering Circular, the Group has not experienced any work stoppages, strikes or other labour issues that could have a material adverse effect on its business, financial condition, results of operations and prospects.

ENVIRONMENTAL COMPLIANCE

The Group believes it is in compliance in all material respects with applicable environmental regulations in the jurisdictions in which the Group operates except for the non-compliance with the environmental laws and regulations as disclosed in *"Risk Factors – Risks relating to the Group – Non-compliance with environmental regulations, including those to be implemented in the future, may result in material adverse effects on the Group's results of operations."* Save as disclosed in this Offering Circular, the Group is not aware of any environmental proceedings or investigations to which the Guarantor or any member of the Group is or might become a party and which might have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

GOVERNMENT REGULATION

The Group's businesses are subject to various laws and regulations in the jurisdictions in which it operates. The Group's properties are subject to routine inspections by government officials with regard to various safety and environmental issues. Save as disclosed in this Offering Circular, the Group believes it is in compliance in all material respects with government regulations currently in effect in the jurisdictions in which the Group operates and has obtained necessary approvals, permits or licences in connection with the business operation of the Group in material aspects. The Group is not aware of significant problems with respect to compliance with government regulations or possession of necessary approvals, permits or licences in relation to the Group's operations which could have a material adverse effect on the Group's properties or operations, nor is the Group aware of any pending government legislation that could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

INSURANCE

The Group is covered by insurance policies for losses from fire, flood, riot, strike, malicious damage, other material damage on the Group's property, business interruption and public liability. The Group believes its properties are covered with adequate insurance provided by reputable independent insurance companies in the relevant jurisdictions and with commercially reasonable deductibles and limits on coverage, which are normal for the type and location of the properties to which they relate and are in line with general industry practice. Notwithstanding such insurance coverage, damage to the buildings, facilities, equipment or other properties as a result of occurrences such as fire, floods, earthquake, water damage, explosion, power loss, typhoons, nuclear accidents and other natural disasters, epidemics or terrorism, could potentially have a material adverse effect on the Group's business, financial condition, results of operations and prospects. For more details, see *"Risk Factors – The Group's business* *operations are subject to risks, some of which may not be fully covered by insurance, such as those relating to equipment and systems failure, accidents, interruptions, epidemics and terrorism and no assurance can be given by the Group that significant costs and liabilities will not be incurred.”*

PROPERTY

Many of the properties that the Group uses for its business, particularly properties related to the natural gas distribution and transmission, are used pursuant to land use arrangements entered into with local or provincial PRC government authorities. Pursuant to such arrangements, the Group has obtained the land use rights through allocation and authorisation from the local government without paying land premium to local land authorities. Such arrangements are not formalised in all cases, and limit the Group 's usage of the property to the specific purpose for which the original use has been granted. Under PRC laws and regulations, approvals from, and payment of land premium to local land authorities are necessary for any transfer, lease, sale and disposal of such allocated or authorised land or the buildings attached thereto. For more details, see “*Risk Factors – Many of the Group's properties are subject to usage for special purposes and restrictions on transfer and sub-lease and some of the PRC subsidiaries of the Group do not possess valid land use rights or building ownership certificates to certain properties*.”

LITIGATION AND OTHER PROCEEDINGS

From time to time, the Group may be involved in legal or other proceedings concerning matters that arise in the ordinary course of business operations. See “*Risk Factors – Risks relating to the Group – The Group may be involved from time to time in material disputes, administrative, legal and other proceedings arising out of its operations and may face significant liabilities or damage to its reputation as a result.*” Save as disclosed in and as at the date of this Offering Circular, the Group is not involved in, nor has the Group been recently involved in, any legal or arbitral proceedings, which if determined adversely against it, will have a material adverse effect on the Group 's business, financial condition, results of operations and prospects.

DIRECTORS AND MANAGEMENT

The board of directors (the "**Board**") of the Guarantor comprises six executive directors and four independent non-executive directors. The principal focus of the Board is on overall strategic development, internal control system and risk management system. The Board provides guidance on business plans and monitors the results of such plans implemented by the management and reviews and approves financial objectives and major financial activities of the Group.

The members of the Board as at the date of this Offering Circular are as follows:

Name	Age	Title
LI Yongcheng.	59	Executive Director and Chairman of the Board
JIANG Xinhao	56	Executive Director and Vice Chairman of the Board
ZHAO Xiaodong	48	Executive Director and Vice Chairman of the Board
DAI Xiaofeng	44	Executive Director
XIONG Bin	54	Executive Director and Chief Executive Officer
TAM Chun Fai	59	Executive Director, Chief Financial Officer and Company Secretary
WU Jiesi	69	Independent Non-executive Director
LAM Hoi Ham	82	Independent Non-executive Director
SZE Chi Ching	81	Independent Non-executive Director
YU Sun Say	82	Independent Non-executive Director

The biographies of the executive directors and independent non-executive directors of the Guarantor are as follows:

Executive Directors

LI Yongcheng, aged 59, is the Chairman of the Guarantor. Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master's degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas. He is currently Vice Chairman and Executive Deputy General Manager of BE Group, and is also Chairman and Executive Director of BE Water. Mr. Li was Vice President of the Guarantor from August 2007 to March 2011, and subsequently re-joined the Guarantor as Executive Director in March 2014 and was re-designated as Executive Director and Vice Chairman in March 2016. Mr. Li was re-designated as Chairman in February 2021.

JIANG Xinhao, aged 56, is a Vice Chairman of the Guarantor. Mr. Jiang also serves as Vice General Manager of BE Group, Executive Director of BE Water as well as Non-executive Director of China Gas. Mr. Jiang is a chief senior economist. Mr. Jiang graduated from Fudan University in 1987 with a bachelor's degree in law, then he served as a Policy Analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. In 1992, he was granted a master's degree in law at Fudan University. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a Deputy General Manager of Jingtai Finance Company in Hong Kong, and subsequently a Director and Vice President of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a Director and the Chief Executive Officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a Manager of the investment development department of Beijing Holdings Limited and a General Manager of Beijing BHL Investment Center between May 2000 and February 2005. From January 2011 to June 2016, Mr. Jiang was an Executive Director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Jiang joined the Group in February 2005.

ZHAO Xiaodong, aged 46, is a Vice Chairman of the Guarantor. Mr. Zhao obtained a master's degree of mechanical manufacturing from Beijing University of Technology and once studied for a doctor's degree in management science and engineering at Beijing University of Technology. Mr. Zhao has joined Beijing Yan Jing Beer Group Company since 1998. He is currently the Chairman of Beijing Yan Jing Beer Group Company and Chairman and General Manager of Yanjing Brewery. Mr. Zhao was appointed as Executive Director and Vice Chairman of the Guarantor in September 2017. Based on an announcement made by the Guarantor on 8 October 2020, the Board was informed that Mr. Zhao, Chairman of the Board and General Manager of Yanjing Brewery, was under official investigation and detained by the relevant authorities in Mainland China due to suspected duty-related violation and was unable to perform his duties. All business activities of the Guarantor and Yanjing Brewery remained normal. The case had no significant impact on the Guarantor's as well as Yanjing Brewery's business operations.

DAI Xiaofeng, aged 44, also serves as Vice General Manager of BE Group. Mr. Dai is a PRC senior accountant. He graduated from the College of Economics and Management of the China Agricultural University, and received an MBA degree from the School of Economics and Management of the Tsinghua University. From 2002 to 2004, Mr. Dai was the Assistant Finance Manager of Huayi Pharmaceutical Co., Ltd. and was the Finance Manager of Beijing Gas from 2006 to 2014. Mr. Dai joined the Guarantor in 2014 as Vice CFO of the Guarantor. He was appointed as Vice President of the Guarantor in December 2019 and as Executive Director of the Guarantor in February 2021.

XIONG Bin, aged 54, is the Chief Executive Officer of the Guarantor. He also serves as Assistant to General Manager of BE Group and Director of Beijing Gas. Mr. Xiong is a PRC engineer. He graduated from the Department of Thermal Engineering of the School of Mechanical Engineering of Tongji University, and received an EMBA degree from the School of Economics and Management of the Tsinghua University. Mr. Xiong has joined Beijing Gas since 1999 from which he has obtained numerous years of experience in public infrastructure facilities management. Also, Mr. Xiong has joined BE Group since 2011 and by working at its Strategic Investment Department, he has enriched his experience in strategic and investment management skills. Mr. Xiong was appointed as Executive Director and Chief Executive Officer of the Guarantor in February 2021.

TAM Chun Fai, aged 59, is the Chief Financial Officer and Company Secretary of the Guarantor. Mr. Tam also serves as the Independent Non-executive Director of Hi Sun Technology (China) Limited (stock code: 818) and KWG Property Holding Limited (stock code: 1813). Mr. Tam graduated from the Hong Kong Polytechnic University with a bachelor's degree in accountancy and is a regular member of Chartered Financial Analyst and a member of Hong Kong Institute of Certified Public Accountants. Mr. Tam has extensive experience in auditing and corporate advisory services with major international accounting firms. He was involved in floatation and audit work of a wide variety of businesses, including electronics, electrical appliances, athletic shoes manufacturing, banking, insurance, securities and property development. Mr. Tam joined the Group in April 1997 and has been involved in financial management, corporate finance, compliance and investor relationship function of the Group. Through his role as independent non-executive director in Hi Sun Technology (China) Limited and KWG Property Holding Limited, Mr. Tam further enriches his experience in corporate governance and compliance work of listed companies in Hong Kong.

Independent Non-executive Directors

WU Jiesi, aged 69, is the Chairman of Fuhai Yintao Asset Management Co. Ltd., Independent Non-executive Director of China Citic Bank International Limited as well as Industrial and Commercial Bank of China (Asia) Limited; and Non-executive Director of Silver Base Group Holdings Limited (stock code: 886). He conducted post-doctoral research work in theoretical economics at the Nankai University in the PRC and was conferred the professorship qualification by the Nankai University in 2001. During the period from 1984 to 1995, Mr. Wu worked at the Industrial and Commercial Bank of China in a number of positions, including as the President of Shenzhen Branch. From 1995 to 1998, Mr. Wu was Vice Mayor of Shenzhen Municipal Government and from 1998 to 2000 he was the assistant to the

Governor of Guangdong province. He was the Chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited, Non-executive Director of Shenzhen Investment Limited (stock code: 604) (from 2006 to 2020), and Independent Non-executive Director of China Taiping Insurance Holdings Company Limited (stock code: 966) (from 2000 to 2020). He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

LAM Hoi Ham *Justice of Peace*, aged 82, graduated from the faculty of economics of The University of Hong Kong, is the founder of the accounting firm H H Lam & Co. and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lam was granted the Medal of Honour by The Hong Kong Government in 1994 and was appointed a Justice of the Peace in 1997. Mr. Lam previously served as a Standing Committee member of the 10th and 11th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China of Beijing City and served as its Senior Consultant. He was the Vice Chairman of Beijing Overseas Friendship Association and a committee member of Beijing Health Department Overseas Friendship Association, etc. Mr. Lam joined the Group in March 2008.

SZE Chi Ching *SBS, Justice of Peace*, aged 81. Dr. Sze obtained an honorary doctorate degree in social sciences from City University of Hong Kong in 2008. He previously served as Hong Kong Affairs Advisor to the State Council, Vice Chairman of All-China Federation of Industry and Commerce, standing committee member of the Chinese People's Political Consultative Conference of Fujian Province, member of China Trade Advisory Board of Hong Kong Trade Development Council, member of the 8th, 9th, 10th and 11th Committee of Chinese People's Political Consultative Conference; Associate Director of the 11th Committee for Learning and Cultural and Historical Data of the Committee of the People's Political Consultative Conference; Vice Chairman of China Civilian Chamber of Commerce. He is currently honorary committee member of China Federation of Literary, consultant of China Calligraphers Association, invited member of Xiling Seal Engravers' Society, Chairman of Hong Kong Branch of Chinese Calligraphers Association, Chairman of the board of Hang Tung Resources Holding Limited, honorary consultant of Hong Kong Federation of Fujian Associations, Chief Honorary Chairman of Federation of Hong Kong Jinjiang Associations, and Honorary President of the Hong Kong Fujian Chamber of Commerce. He has been appointed as Vice Chairman and a visiting professor of Huaqiao University, a part-time professor of the Chinese Department of Xiamen University, consulting professor of Peking University and Executive Director of the Board of Trustees of Jimei University, among other positions. Dr. Sze joined the Group in March 2013.

YU Sun Say *G.B.M.*, *J.P.*, aged 82. Dr. Yu is Chairman of the H.K.I. Group of companies, director of a number of manufacturing and investment companies, Independent Non-Executive Director of Tongda Group Holdings Limited (stock code: 698), Wong's International Holdings Limited (stock code: 99) and Fu Shek Financial Holdings Limited (stock code: 2263), member of the Standing Committee of the Chinese General Chamber of Commerce, Permanent Honorary President of the Chinese Manufacturers' Association of Hong Kong. Dr. Yu was member of the Standing Committee of the Chinese People's Political Consultative Conference as well as member of the Preparatory Committee for the Hong Kong Special Administrative Region and its Hong Kong Affairs Adviser. Dr. Yu joined the Group in March 2013.

Senior Management

The members of the senior management of the Guarantor as at the date of this Offering Circular are as follows:

Name	Age	Title
ZHI Xiaoye	53	Vice President
KE Jian	52	Vice President
SHA Ning	50	Vice President
JIN Feng	42	Vice President

ZHI Xiaoye, aged 53, is a Vice President of the Guarantor. Mr. Zhi also serves as General Manager of Beijing Gas, and Non-Executive Director and Co-Chairman of Beijing Gas Blue Sky. Mr. Zhi graduated from Beijing University of Technology with a mater degree in Management Science and Engineering, possesses the title of senior engineer, and had worked at Tokyo Gas in Japan as Researcher, at Beijing Gas as transmission branch Manager, at Beijing Dingxin New Technology Company Limited (北京市鼎新新技術有限公司) as Chairman and at Beijing Gas as Executive Deputy General Manager. Mr. Zhi was appointed as Vice President of the Guarantor in July 2014.

KE Jian, aged 52, is a Vice President of the Guarantor. Mr. Ke also serves as an Executive Director of BE Water and Chairman and CEO of BE Environment. Mr. Ke is a PRC chief senior accountant, certified tax agent and senior international finance manager. Mr. Ke received a bachelor's degree in economics from Beijing College of Finance and Commerce and an MBA degree from Murdoch University, Australia. He joined the Guarantor in 1997 and was appointed as Vice President of the Guarantor in April 2011.

SHA Ning, aged 50, is a Vice President of the Guarantor. Ms. Sha also serves as an Executive Director of BE Water and an Executive Director and Vice President of BE Environment. Ms. Sha graduated from the Business and Economic Faculty of Heilongjiang Institute of Commerce in 1992, and studied Accounting in Beijing School of Business and Capital University of Economics and Business. She obtained an EMBA degree from The Hong Kong University of Science and Technology, and was granted the title of PRC chief senior accountant. Ms. Sha joined the Group in 2001 and has been appointed as Vice President of the Guarantor since January 2017.

JIN Feng, aged 42, is a Vice President of the Guarantor. Mr. Jin graduated from the School of Economics and Business Administration of Beijing Normal University with a master's degree in professional corporate management. During his tenure at the research institute and general office of Beijing SASAC from 2004 to 2009, Mr. Jin was once transferred to work with State-owned Assets Supervision and Administration Commission of the State Council. From 2009 to 2017, he worked with BE Group as Senior Office Manager, and later as Deputy Director of research institute and Office Director, respectively. Mr. Jin was appointed as Vice President of the Guarantor in July 2017.

EXCHANGE RATE INFORMATION

Hong Kong

The HK dollar is freely convertible into the U.S. dollar. Since 1983, the HK dollar has been linked to the U.S. dollar. Under existing Hong Kong law, there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of payments to U.S. residents. The Basic Law of the Hong Kong Special Administrative Region of the PRC, which came into effect on 1 July 1997, provides that no foreign exchange control policies may be applied in Hong Kong. Although the market exchange rate of the HK dollar against the U.S. dollar was and continues to be determined by forces of supply and demand in the foreign exchange markets, between 1983 and May 2005 Hong Kong maintained a fixed rate system which set the rate of exchange at HK$7.80 per U.S. dollar (the "**Linked Exchange Rate System**"). However, in May 2005, the Hong Kong Monetary Authority broadened the 22-year trading band from the original rate of HK$7.80 per U.S. dollar to a new range varying between HK$7.75 and HK$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the Linked Exchange Rate System. The Hong Kong government has also stated that it has no intention of imposing exchange controls and that the HK dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong government will maintain the trading band at HK$7.75 to HK$7.85 per U.S. dollar or at all. As a result of the Linked Exchange Rate System, exchange rates between the HK dollar and other currencies are influenced by the value of the U.S. dollar.

The following tables sets forth, for the periods indicated, certain information concerning the exchange rates between HK dollars and U.S. dollars. The exchange rates reflect the exchange rates as set forth in the H.10 statistical release of the Federal Reserve Board.

	Exchange Rate			
Period	**Period End**	**Average(1)**	**High**	**Low**
	(HK$ per U.S.$1.00)			
2014	7.7531	7.7554	7.7669	7.7495
2015	7.7507	7.7519	7.7686	7.7495
2016	7.7534	7.7618	7.8270	7.7505
2017	7.8128	7.7950	7.8267	7.7540
2018	7.8305	7.8376	7.8499	7.8043
2019	7.7894	7.8335	7.8499	7.7850
2020	7.7534	7.75615	7.7951	7.7498
2021				
January	7.7531	7.7533	7.7555	7.7517
February	7.7567	7.7529	7.7567	7.7515
March	7.7746	7.7651	7.7746	7.7562
April (through 16 April 2021)	7.7699	7.7745	7.7849	7.7666

Note:

(1) *Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.*

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions now in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Bonds or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the possible tax consequences of the buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

PRC Taxation

The following summary describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of mainland China for the PRC tax purposes. These beneficial owners are referred to as non-resident Bondholders in this "*PRC Taxation*" section. In considering whether to invest in the Bonds, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Pursuant to the Enterprise Income Tax Law effective on 1 January 2008, amended on 24 February 2017 and 29 December 2018, and the PRC Individual Income Tax Law, as amended on 31 August 2018 and effective on 1 January 2019, and their implementation regulations, an income tax is imposed on the interests by way of withholding in respect of the Bonds, paid by the Issuer (if such interests are regarded as income derived from sources within the PRC under the Enterprises Income Tax Law and/or the Individual Income Tax Law) to non-resident Bondholders, including non-resident enterprises and non-resident individuals. The current rates of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of the interest. However, the tax so charged on interests paid on the Bonds to non-resident Bondholders who or which are residents of Hong Kong (including enterprise holders and individual holders) as defined under the arrangement between mainland China and Hong Kong for purpose of the avoidance of double taxation will be 7 per cent. of the gross amount of the interest pursuant to the arrangement between mainland China and Hong Kong and relevant interpretation of the arrangement formulated by the State Administration of Taxation of China. The Issuer has agreed to pay additional amounts to holders of the Bonds so that holders of the Bonds would receive the full amount of the scheduled payment, as further set out in the "*Terms and Conditions of the Bonds*".

Under the Enterprise Income Tax Law and its implementation rules, any gains realised on the transfer of the Bonds by holders who are deemed under the Enterprise Income Tax Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as incomes derived from sources within the PRC. Under the Enterprise Income Tax Law, a "non-resident enterprise" means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained incomes derived from sources within the PRC. In addition, there is uncertainty as to whether gains realised on the transfer of the Bonds by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to an arrangement between mainland China and Hong Kong for avoidance of double taxation, Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds.

In addition, pursuant to Circular 36 which took effect on 1 May 2016, entities and individuals providing services within the PRC are subject to VAT. The services are treated as being sold within the PRC where either the service provider or the service recipient is located in the PRC. Circular 36 further clarifies that "loans" refer to the activity of lending capital for another's use and receiving interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Bonds is likely to be treated as a "loan" provided by the Bondholders to the Issuer or the Guarantor, which thus shall be regarded as the financial services for VAT purposes. In general, the income derived from provision of loans will not be subject to VAT in the PRC if none of the Issuer, the Guarantor or the Bondholders is within the PRC. However, it is uncertain whether a foreign incorporated company which is deemed to be a PRC resident enterprise would be regarded as being within the PRC. In the event that the Issuer or the Guarantor is deemed to be a PRC resident enterprise and is deemed to be within the PRC by the PRC tax authorities, the Bondholders may be deemed to be providing financial services to the Issuer or the Guarantor within the PRC and consequently, the amount of interest on the Bonds payable by the Issuer to any non-resident Bondholders may be subject to withholding VAT at the rate of 6 per cent. plus related surcharges. Circular 36 and laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of which involve uncertainties, and the above statement may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

No PRC stamp duty will be imposed on non-resident Bondholders either upon issuance of the Bonds or upon a subsequent transfer of Bonds.

British Virgin Islands

The Issuer and all dividends, interest, rents, royalties, compensations and other amounts paid by the Issuer to persons who are not persons resident in the British Virgin Islands are exempt from the provisions of the Income Tax Act in the British Virgin Islands, and any capital gains realised by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligations, or other securities of the Issuer are exempt from all forms of taxation in the British Virgin Islands.

Under the Payroll Taxes Act, 2004 (as amended), a payroll tax was introduced in the British Virgin Islands as at 1 January 2005. The payroll tax will not apply to the Issuer except to the extent that the Issuer has employees (and deemed employees) rendering services to the Issuer wholly or mainly in the British Virgin Islands (whether or not payment is made in the British Virgin Islands). The Issuer at present has no employees in the British Virgin Islands and no intention of having any employees in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligations or other securities of the Issuer.

All instruments relating to transfers of property to or by the Issuer and all instruments relating to transactions in respect of the shares, debt obligations or other securities of the Issuer (including the Bonds) and all instruments relating to other transactions relating to the business of the Issuer are exempt from the payment of stamp duty in the British Virgin Islands. There are certain exceptions relating to a transfer of an interest in land situate in the British Virgin Islands and transactions in respect of the shares, debt obligations or other securities of a company which has an interest in land situate in the British Virgin Islands. However, the Issuer at present does not have any interest in land situate in the British Virgin Islands and has no intention of acquiring any interest in land in the British Virgin Islands, whether directly or indirectly.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest in respect of the Bonds or in respect of any capital gains arising from the sale of the Bonds.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "**IRO**") as it is currently applied by the Inland Revenue Department, interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(a) interest on the Bonds is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(b) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(c) interest on the Bonds is received by or accrues to a financial institution (as defined in the IRO) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(d) interest on the Bonds is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums derived from the sale, disposal or redemption of the Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired and disposed of.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Bonds will be subject to profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Bonds will be subject to Hong Kong profits tax.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond (for so long as the register of holders of the Bonds is maintained outside Hong Kong).

Estate duty

No Hong Kong estate duty is payable in respect of the Bonds.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each other than Estonia, the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Certificates (including secondary market transactions) in certain circumstances. The issuance and subscription of Certificates should, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution maybe, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Certificates are advised to seek their own professional advice in relation to the FTT.

FATCA Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions.

Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change.

Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply prior to the date that is two years after the date on which final regulations defining "foreign passthru payments" are published in the U.S. Federal Register and Bonds characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for the purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional bonds (as described under "Terms and Conditions – Further Issues") that are not distinguishable from such previously issued Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Bonds, including the Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Bonds.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Managers on 28 April 2021 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to issue, the Guarantor has agreed to guarantee and the Managers have severally but not jointly agreed with the Issuer and the Guarantor to subscribe for the principal amount of Bonds set forth opposite their names below:

Manager	Principal Amount of the Series 1 Bonds	Principal Amount of the Series 2 Bonds
Bank of China (Hong Kong) Limited	U.S.$51,000,000	U.S.$68,000,000
DBS Bank Ltd.	U.S.$51,000,000	U.S.$68,000,000
The Hongkong and Shanghai Banking Corporation Limited	U.S.$51,000,000	U.S.$68,000,000
Mizuho Securities Asia Limited	U.S.$51,000,000	U.S.$68,000,000
Standard Chartered Bank	U.S.$51,000,000	U.S.$68,000,000
CCB International Capital Limited	U.S.$7,500,000	U.S.$10,000,000
China CITIC Bank International Limited	U.S.$7,500,000	U.S.$10,000,000
China Everbright Bank Co., Ltd., Hong Kong Branch	U.S.$7,500,000	U.S.$10,000,000
China International Capital Corporation Hong Kong Securities Limited	U.S.$7,500,000	U.S.$10,000,000
Crédit Agricole Corporate and Investment Bank	U.S.$7,500,000	U.S.$10,000,000
Industrial and Commercial Bank of China (Asia) Limited	U.S.$7,500,000	U.S.$10,000,000
Total	**U.S.$300,000,000**	**U.S.$400,000,000**

The Managers are offering the Bonds in accordance with the terms of the Subscription Agreement and subject to certain conditions contained in the Subscription Agreement, including, *inter alia*, the receipt by the Managers of documentation related to the issuance and sale of the Bonds, officer's certificates and legal opinions. The Subscription Agreement may be terminated by the Managers in certain circumstances prior to payment being made to the Issuer.

The Subscription Agreement provides that the Issuer and the Guarantor will jointly and severally indemnify the Managers and their affiliates against certain liabilities in connection with the offer and sale of the Bonds.

The Issuer or, as the case may be, the Guarantor will pay the Managers' customary commissions in connection with the offering and will reimburse the Managers for certain fees and expenses incurred in connection with the offering.

The Bonds are a new issue of securities for which there currently is no market. The Managers have advised the Issuer that they intend to make a market in the Bonds as permitted by applicable law. They are not obligated, however, to make a market in the Bonds and any market-making may be discontinued at any time at their sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the Bonds.

The Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). The Managers and their affiliates have, from time to time, performed, and may in the future perform, various Banking Services or Transactions for the Issuer and/or the Guarantor for which they received or may in the future receive customary fees, expenses and commissions.

The Managers and their respective affiliates may purchase and allocate the Bonds for asset management and/or proprietary purposes but not with a view to distribution. Such entities may hold or sell such Bonds or purchase further Bonds for their own account in the secondary market or deal in any other securities of the Issuer or the Guarantor, and they may offer or sell the Bonds or other securities otherwise than in connection with the offering of the Bonds. Accordingly, references herein to the Bonds being "offered" should be read as including any offering of the Bonds to the Managers and/or their respective affiliates, or affiliates of the Issuer or the Guarantor for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. The Issuer, the Guarantor, and the Managers are under no obligation to disclose the extent of the distribution of the Bonds amongst individual investors.

In the ordinary course of their various business activities, the Managers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer and/or the Guarantor, including the Bonds and could adversely affect the trading prices of the Bonds. The Managers or their affiliates that have a lending relationship with the Issuer and/or the Guarantor may routinely hedge their credit exposure to the Issuer and/or the Guarantor consistent with their customary risk management policies. Typically, the Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's and/or the Guarantor's securities, including potentially the Bonds offered hereby. Any such short positions could adversely affect future trading prices of the Bonds offered hereby. The Managers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Bonds or other financial instruments of the Issuer or the Guarantor, and may recommend to their clients that they acquire long and/or short positions in the Bonds or other financial instruments.

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any affiliates of the Managers are licensed brokers or dealers in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Issuer in such jurisdiction. No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required.

United States

The Bonds and the Guarantees have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each of the Managers has represented that it has not offered or sold, and agreed that it will not offer or sell, any Bonds constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it or its affiliates, nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each of the Managers has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Offering Circular in relation thereto to any retail investor in the EEA. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Prohibition of Sales to UK Retail Investors

Each of the Managers has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Offering Circular to any retail investor in the UK. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

United Kingdom

Each of the Managers has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

British Virgin Islands

Each of the Managers has represented, warranted and agreed that it has not offered or sold and will not offer or sell the Bonds in the British Virgin Islands.

Hong Kong

Each of the Managers has represented, warranted and undertaken that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap.571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each of the Managers has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Managers has represented, warranted and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: *In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section*

309A(1) of the SFA), that the Bonds are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each of the Managers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

People's Republic of China

Each of the Managers has represented, warranted and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

GENERAL INFORMATION

1. **Clearing System:** The Series 1 Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 233514217 and the International Securities Identification Number for the Series 1 Bonds is XS2335142175. The Series 2 Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 233514241 and the International Securities Identification Number for the Series 2 Bonds is XS2335142415.

2. **LEI**: The Issuer's Legal Entity Identifier (LEI) is 2549002XKO8XBAXUDO24.

3. **Listing of the Bonds:** Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only and such permission is expected to become effective on or about 7 May 2021. A confirmation of the eligibility for the listing of the Bonds has been received from the Hong Kong Stock Exchange.

4. **Authorisations:** Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by (i) resolutions of the directors of the Issuer passed on 26 April 2021, and (ii) giving of the Guarantees was authorised by resolutions of the Board of Directors of the Guarantor passed on 26 April 2021.

5. **NDRC Registration:** The Issuer is authorised to issue the Bonds within the NDRC Quota. The Guarantor undertakes to file or cause to be filed with the NDRC the requisite information on the issuance of the Bonds within the prescribed timeframe after the issue date of the Bonds as required by the NDRC.

6. **No Material Adverse Change:** There has been no material adverse change in the prospects, and there has been no significant change in the financial or trading position, of the Issuer, the Guarantor or the Group since 31 December 2020.

7. **Litigation:** Save as disclosed in this Offering Circular, none of the Issuer or the Guarantor is or has been engaged in nor, so far as the Issuer or the Guarantor are aware, is there any pending or threatened, governmental, legal or arbitration proceedings which may have, or have had, a significant effect on the Issuer's financial position or profitability since the date of its incorporation, or on the Guarantor's financial position or profitability during the 12 months preceding the date of this Offering Circular.

8. **Available Documents:** Physical copies of the audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2019 and 2020 may be obtained free of charge, and copies of the Trust Deeds (which include the Guarantees given by the Guarantor), the Agency Agreements and the memorandum and articles of association of each of the Issuer and the Guarantor will be available for inspection, at the principal place of business of the Guarantor at 66/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours, so long as any of the Bonds is outstanding.

9. **Auditors:** The audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2019 and 2020, found at the back of this Offering Circular, have been audited by Ernst & Young, certified public accountants of the Hong Kong Institute of Certified Public Accountants, as stated in their reports appearing therein.

INDEX TO FINANCIAL STATEMENTS

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

Pages references set forth below refer to pages in the Guarantor's annual report for the year ended 31 December 2020, and the Guarantor's annual report for the year ended 31 December 2019, respectively.

INDEPENDENT AUDITOR'S REPORT

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To the members of Beijing Enterprises Holdings Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 206, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	**How our audit addressed the key audit matter**
Impairment assessment of goodwill	
At 31 December 2020, the goodwill carried in the Group's financial statements was approximately HK$16.8 billion. Management is required to perform a test on goodwill for impairment at least on an annual basis. This test is largely based on management expectations, assumptions and estimates of future results of the cash-generating units to which the goodwill has been allocated. The assumptions are affected by expectations of future market or economic conditions. The impairment test is based on the comparison between the recoverable amounts of the relevant cash-generating units, and their respective carrying amounts. Given the complexity and judgemental nature of the impairment testing, management engaged an independent external valuer to prepare the valuation models to assist with the impairment assessment. Accordingly, this is identified as a key audit matter. The related disclosures are included in notes 2.4, 3 and 17 to the consolidated financial statements.	We considered the competency, capabilities and objectivity of the independent professional valuer engaged by the management and involved our internal valuation specialists to assist us in evaluating the methodology and key assumptions adopted in the impairment assessments. We evaluated management expectations, assumptions and estimates of future results of the cash-generating units used in the valuation models by (i) testing the assumptions used in the cash flow forecasts; (ii) comparing the historical forecast with actual results; and (iii) obtaining corroborative evidence to support the growth assumptions. We carried out audit procedures on management's sensitivity calculations. We also assessed the adequacy of the disclosures for the impairment testing in the consolidated financial statements, specifically the key assumptions with the most significant effect on the determination of the recoverable amounts, such as the discount rates and growth rates.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	**How our audit addressed the key audit matter**
Impairment assessment of certain non-current non-financial assets	
Certain of the Group's brewery plants have been loss-making for some time and, during the year, there was an adverse change in the government policy in connection with the Group's solid waste treatment operation in Mainland China and the operations of a solid waste incineration plant in Mainland China continued to be suspended under a local government's instruction. These events constituted impairment indications of the non-current assets attributable to the relevant cash-generating units. The carrying amounts of property, plant and equipment, right-of-use assets, operating concessions and other intangible assets of the relevant cash-generating units amounted to approximately HK\$4.7 billion, HK\$405 million, HK\$4.4 billion and HK\$134 million as at 31 December 2020, respectively. The Group is required to perform impairment assessment on an asset if there is an indicator that the recoverable amount of the asset may be lower than its carrying amount. The Group performed an impairment assessment of these assets in accordance with Hong Kong Accounting Standard ("HKAS") 36 *Impairment of Assets*. In this regard, the Group engaged an independent professional valuer to assist it in the estimation of the recoverable amounts of the relevant assets or related cash-generating units, which are the higher of the value in use and the fair value less costs of disposal. An impairment loss is recognised only if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.	We evaluated the assumptions and data used by the Group in the impairment assessment of these assets, and involved our internal valuation specialists to assist us in evaluating the methodology and key assumptions adopted by the independent professional valuer for the impairment assessment and the fair value used in the recoverable amount calculation. As part of our audit procedures, we considered the competence, capabilities and objectivity of the independent professional valuer. We also assessed the adequacy of the related disclosures in the notes to the consolidated financial statements.

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KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of certain non-current non-financial assets (Continued)	
The value in use basis requires, inter alia, management's estimation on the expected future cash flows from the assets and a suitable discount rate in order to calculate the present value of those cash flows; while the fair value less costs of disposal basis requires, inter alia, estimation of the prices at which an orderly transaction to sell these assets would take place. Given the complexity and judgemental nature of the impairment test, we considered this a key audit matter. Related disclosures are included in notes 2.4, 3, and 20 to the consolidated financial statements.	

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KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Estimation in revenue recognition in relation to piped gas operation	
The recognition of revenue generated from piped gas operation depends on (i) the estimated volume of gas sold during the period between the date of the last meter reading and the year end; and (ii) the estimated volume of gas sold from the prepaid meter. Judgements are involved to determine the unread volume of gas sold to measure revenue. The Group's accrued revenue is estimated based on the billed volume from the latest meter reading period and the prepaid revenue is estimated based on the advance from customers, adjusted by the location and nature of customers. Related disclosures are included in notes 2.4 and 3 to the consolidated financial statements.	We understood, evaluated and tested the key controls of the Group in respect of revenue recognition for the sale of piped natural gas. We evaluated management's estimation by comparing the subsequent actual bills with estimated revenue. We also performed substantive testing on the source data and reviewed the calculation of accrued revenue. In addition, we performed analytical review on the overall financial performance, including monthly sales analysis by types of customer, gross profit margin analysis and recoverability analysis. We obtained explanations for material differences from our expectation formed with reference to growth of customer base and seasonal factors of current year.

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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.

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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.

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.

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

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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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 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
REVENUE	5	**68,407,443**	67,783,028
Cost of sales		**(57,542,546)**	(56,836,891)
Gross profit		**10,864,897**	10,946,137
Gains on deemed disposal of partial interests in associates	22(a)	**–**	338,115
Other income and gains, net	6	**1,811,336**	1,387,500
Selling and distribution expenses		**(2,028,737)**	(2,066,966)
Administrative expenses		**(4,723,212)**	(4,846,395)
Other operating expenses, net		**(2,247,954)**	(978,673)
Finance costs	7	**(1,998,037)**	(2,194,968)
Share of profits and losses of:			
Joint ventures		**16,565**	28,810
Associates	22(b), (c)	**4,958,399**	6,982,418
PROFIT BEFORE TAX	8	**6,653,257**	9,595,978
Income tax	11	**(1,006,794)**	(1,022,369)
PROFIT FOR THE YEAR		**5,646,463**	8,573,609
ATTRIBUTABLE TO:			
Shareholders of the Company		**5,286,888**	8,054,780
Non-controlling interests		**359,575**	518,829
		5,646,463	8,573,609
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
Basic and diluted	13	**HK$4.19**	HK$6.38

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
PROFIT FOR THE YEAR		**5,646,463**	8,573,609
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**4,315,091**	(741,233)
Share of other comprehensive income/(loss) of associates		**1,961,382**	(678,817)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**6,276,473**	(1,420,050)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Defined benefit obligations:			
Actuarial losses	*36(b)*	**(32,704)**	(193,323)
Income tax effect	*39*	**13,059**	59,650
		(19,645)	(133,673)
Equity investments at fair value through other comprehensive income:			
Changes in fair value		**(175,614)**	355,682
Income tax effect	*39*	**132,218**	(70,901)
		(43,396)	284,781
Share of other comprehensive loss of associates		**(69,994)**	(16,037)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		**(133,035)**	135,071
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		**6,143,438**	(1,284,979)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**11,789,901**	7,288,630
ATTRIBUTABLE TO:			
Shareholders of the Company		**10,676,811**	6,954,047
Non-controlling interests		**1,113,090**	334,583
		11,789,901	7,288,630

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	14	**55,910,968**	51,898,919
Investment properties	15	**1,189,696**	1,131,346
Right-of-use assets	16(b)	**2,136,712**	2,839,886
Goodwill	17	**16,762,006**	16,332,072
Operating concessions	18	**4,248,848**	3,783,828
Other intangible assets	19	**3,394,102**	3,373,759
Investments in joint ventures	21	**392,516**	327,691
Investments in associates	22	**60,982,149**	57,244,835
Equity investments at fair value through other comprehensive income	23	**3,233,117**	3,284,217
Financial asset at fair value through profit or loss	24	**2,400,086**	2,265,249
Receivables under service concession arrangements	18	**2,966,895**	2,380,255
Receivable under a finance lease	16(a)	**702,343**	738,296
Prepayments, other receivables and other assets	27	**1,889,176**	937,969
Deferred tax assets	39	**1,799,088**	1,638,766
Total non-current assets		**158,007,702**	148,177,088
Current assets:			
Inventories	25	**5,143,960**	5,189,188
Receivables under service concession arrangements	18	**110,388**	97,552
Receivable under a finance lease	16(a)	**98,535**	84,707
Trade receivables	26	**6,770,865**	6,029,450
Prepayments, other receivables and other assets	27	**4,743,928**	3,638,798
Other tax recoverables		**531,641**	393,871
Financial assets at fair value through profit or loss	24	**238,095**	–
Restricted cash and pledged deposits	29	**36,879**	36,701
Cash and cash equivalents	30	**29,122,428**	22,158,921
Total current assets		**46,796,719**	37,629,188
TOTAL ASSETS		**204,804,421**	185,806,276

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	*31*	**30,401,883**	30,401,883
Reserves	*33(a)*	**54,495,223**	44,879,756
		84,897,106	75,281,639
Non-controlling interests		**12,528,616**	11,733,188
TOTAL EQUITY		**97,425,722**	87,014,827
Non-current liabilities:			
Bank and other borrowings	*34*	**21,770,556**	25,765,222
Guaranteed bonds and notes	*35*	**26,861,083**	26,268,062
Lease liabilities	*16(b)*	**608,805**	684,279
Defined benefit obligations	*36(b)*	**2,591,259**	2,270,816
Provision for major overhauls and onerous contracts	*37*	**410,290**	355,576
Other non-current liabilities	*38*	**1,954,380**	1,823,219
Deferred tax liabilities	*39*	**2,654,242**	2,576,094
Total non-current liabilities		**56,850,615**	59,743,268

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Current liabilities:			
Trade and bills payables	*40*	**4,700,433**	4,508,343
Other payables, accruals and contract liabilities	*41*	**24,321,243**	21,235,911
Provision for major overhauls and onerous contracts	*37*	**53,723**	49,525
Income tax payables		**958,514**	981,218
Other tax payables		**367,672**	374,237
Bank and other borrowings	*34*	**15,398,065**	7,361,029
Guaranteed bonds and notes	*35*	**4,611,320**	4,373,180
Lease liabilities	*16(b)*	**117,114**	164,738
Total current liabilities		**50,528,084**	39,048,181
TOTAL LIABILITIES		**107,378,699**	98,791,449
TOTAL EQUITY AND LIABILITIES		**204,804,421**	185,806,276

Li Yongcheng
Director

Tam Chun Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

		Attributable to shareholders of the Company										
	Notes	Share capital *HK$'000*	Capital reserve *HK$'000* *(note 33(b))*	Investment revaluation reserve *HK$'000*	Property revaluation reserve *HK$'000*	Defined benefit plans reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	PRC reserve funds *HK$'000* *(note 33(c))*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2019		30,401,883	1,278,748	(75,628)	84,051	(88,523)	(3,013,799)	11,151,013	29,934,872	69,672,617	11,342,755	81,015,372
Profit for the year		–	–	–	–	–	–	–	8,054,780	8,054,780	518,829	8,573,609
Other comprehensive income/(loss) for the year:												
Exchange differences on translation of foreign operations		–	–	–	–	–	(559,152)	–	–	(559,152)	(182,081)	(741,233)
Defined benefit obligations:												
Actuarial losses	*36(b)*	–	–	–	–	(190,490)	–	–	–	(190,490)	(2,833)	(193,323)
Income tax effect	*39*	–	–	–	–	58,982	–	–	–	58,982	668	59,650
Equity investments at fair value through other comprehensive income:												
Changes in fair value		–	–	355,682	–	–	–	–	–	355,682	–	355,682
Income tax effect	*39*	–	–	(70,901)	–	–	–	–	–	(70,901)	–	(70,901)
Share of other comprehensive loss of associates		–	–	(14,479)	–	(1,558)	(678,817)	–	–	(694,854)	–	(694,854)
Total comprehensive income/(loss) for the year		–	–	270,302	–	(133,066)	(1,237,969)	–	8,054,780	6,954,047	334,583	7,288,630
Acquisition of subsidiaries	*43*	–	–	–	–	–	–	–	–	–	439,963	439,963
Deregistration of subsidiaries		–	–	–	–	–	–	–	–	–	(72,803)	(72,803)
Share of reserves of associates		–	81,095	–	–	–	–	–	–	81,095	–	81,095
Final 2018 dividend		–	–	–	–	–	–	–	(921,299)	(921,299)	–	(921,299)
Interim 2019 dividend	*12*	–	–	–	–	–	–	–	(504,821)	(504,821)	–	(504,821)
Dividends paid to non-controlling equity holders of subsidiaries		–	–	–	–	–	–	–	–	–	(311,310)	(311,310)
Transfer to PRC reserve funds		–	–	–	–	–	–	1,168,278	(1,168,278)	–	–	–
At 31 December 2019 and 1 January 2020		30,401,883	1,359,843*	194,674*	84,051*	(221,589)*	(4,251,768)*	12,319,291*	35,395,254*	75,281,639	11,733,188	87,014,827
Profit for the year		–	–	–	–	–	–	–	5,286,888	5,286,888	359,575	5,646,463
Other comprehensive income/(loss) for the year:												
Exchange differences on translation of foreign operations		–	–	–	–	–	3,552,153	–	–	3,552,153	762,938	4,315,091
Defined benefit obligations:												
Actuarial losses	*36(b)*	–	–	–	–	(31,489)	–	–	–	(31,489)	(1,215)	(32,704)
Income tax effect	*39*	–	–	–	–	12,780	–	–	–	12,780	279	13,059
Equity investments at fair value through other comprehensive income:												
Changes in fair value		–	–	(167,127)	–	–	–	–	–	(167,127)	(8,487)	(175,614)
Income tax effect	*39*	–	–	132,218	–	–	–	–	–	132,218	–	132,218
Share of other comprehensive income/(loss) of associates		–	–	(70,837)	–	843	1,961,382	–	–	1,891,388	–	1,891,388
Total comprehensive income/(loss) for the year		–	–	(105,746)	–	(17,866)	5,513,535	–	5,286,888	10,676,811	1,113,090	11,789,901
Capital contribution from non-controlling equity holders of subsidiaries		–	–	–	–	–	–	–	–	–	73,708	73,708
Acquisition of non-controlling interests		–	(1,684)	–	–	–	–	–	–	(1,684)	(52,344)	(54,028)
Share of reserves of associates		–	379,080	(16,394)	–	–	–	–	16,394	379,080	–	379,080
Final 2019 dividend	*12*	–	–	–	–	–	–	–	(933,919)	(933,919)	–	(933,919)
Interim 2020 dividend	*12*	–	–	–	–	–	–	–	(504,821)	(504,821)	–	(504,821)
Dividends paid to non-controlling equity holders of subsidiaries		–	–	–	–	–	–	–	–	–	(339,026)	(339,026)
Transfer to PRC reserve funds		–	–	–	–	–	–	1,141,958	(1,141,958)	–	–	–
At 31 December 2020		30,401,883	1,737,239*	72,534*	84,051*	(239,455)*	1,261,767*	13,461,249*	38,117,838*	84,897,106	12,528,616	97,425,722

* *These reserve accounts comprise the consolidated reserves of HK$54,495,223,000 (2019: HK$44,879,756,000) in the consolidated statement of financial position as at 31 December 2020.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**6,653,257**	9,595,978
Adjustments for:			
Bank interest income	*6*	**(605,049)**	(254,723)
Finance income on the net investment in a finance lease	*6*	**(59,526)**	(61,516)
Transfer of assets from customers	*6*	**(58,851)**	(115,914)
Loss/(gain) on disposal of items of property, plant and equipment, net	*6, 8*	**47,031**	(2,240)
Gains on deemed disposal of partial interests in associates	*22(a)*	**–**	(338,115)
Dividend income of equity investments at fair value through other comprehensive income	*6*	**(67,913)**	(49,402)
Investment income of a financial asset at fair value through profit or loss	*6*	**(154,128)**	(160,284)
Finance costs	*7*	**1,998,037**	2,194,968
Depreciation of items of property, plant and equipment	*8*	**3,816,942**	3,592,541
Depreciation of right-of-use assets	*8*	**169,381**	198,898
Amortisation of operating concessions	*8*	**155,903**	131,863
Amortisation of other intangible assets	*8*	**337,566**	235,434
Impairment of items of property, plant and equipment	*14*	**92,941**	–
Impairment of right-of-use assets	*16(b)*	**25,184**	–
Impairment of goodwill	*17*	**438,300**	81,118
Impairment of operating concessions	*18*	**596,645**	158,889
Impairment of other intangible assets	*19*	**55,123**	–
Impairment/(reversal of impairment) of trade receivables, net	*8*	**55,541**	(56,825)
Impairment of other receivables, net	*8*	**1,422**	205,253
Write-down of inventories to net realisable value	*8*	**34,151**	–
Share of profits and losses of joint ventures and associates		**(4,974,964)**	(7,011,228)
Operating profit before working capital changes		**8,556,993**	8,344,695

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES *(Continued)*		
Operating profit before working capital changes	**8,556,993**	8,344,695
Decrease/(increase) in inventories	**305,312**	(127,907)
Increase in receivables under service concession arrangements	**(426,596)**	(252,743)
Increase in trade receivables	**(354,046)**	(699,510)
Decrease/(increase) in prepayments, other receivables and other assets	**(1,249,147)**	7,777
Decrease/(increase) in other tax recoverables	**(106,832)**	215,111
Increase/(decrease) in trade and bills payables	**(177,806)**	145,647
Increase/(decrease) in other payables, accruals and contract liabilities	**1,410,733**	(41,470)
Decrease in other tax payables	**(24,313)**	(66,968)
Increase in provision for major overhauls and onerous contracts	**23,088**	21,508
Increase in defined benefit obligations	**119,937**	119,247
Increase in other non-current liabilities	**713,371**	9,841
Cash generated from operations	**8,790,694**	7,675,228
Finance income on the net investment in a finance lease received	**59,526**	61,516
Mainland China income tax paid	**(686,138)**	(1,046,245)
Overseas income tax paid	**(426,249)**	(160,904)
Net cash flows from operating activities	**7,737,833**	6,529,595

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(6,746,175)**	(4,256,794)
Proceeds from disposal of items of property, plant and equipment		**310,214**	123,833
Receipt of assets-related governments grants		**1,697,734**	893,972
Additions to operating concessions		**(985,018)**	(1,237,298)
Additions to other intangible assets		**(156,571)**	(72,224)
Acquisition of subsidiaries	*43*	**35,732**	821,298
Increase in investments in joint ventures and associates		**(25,130)**	(1,216,314)
Decrease/(increase) in time deposits with maturity of more than three months when acquired		**5,742**	(113,643)
Decrease in restricted cash and pledged deposits		**1,920**	2,639
Purchases of financial assets at fair value through profit or loss		**(224,719)**	–
Proceeds from disposal of an equity investment at fair value through other comprehensive income		**25,729**	–
Dividends received from associates		**3,811,593**	3,837,503
Dividend income of equity investments at fair value through other comprehensive income received		**67,913**	49,402
Investment income of a financial asset at fair value through profit or loss received		**154,128**	160,284
Bank interest income received		**605,049**	254,723
Net cash flows used in investing activities		**(1,421,859)**	(752,619)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders of subsidiaries		**73,708**	–
Acquisition of non-controlling interests		**(54,028)**	–
Proceeds from issue of guaranteed bonds, net of issuance costs		**4,452,971**	–
Repayment of guaranteed bonds		**(4,500,000)**	–
New loans		**17,145,284**	4,805,563
Repayment of loans		**(14,126,320)**	(1,913,743)
Principal portion of lease payments	*16(b)*	**(133,647)**	(288,530)
Interest portion of lease payments	*16(b)*	**(28,993)**	(45,573)
Other interest paid		**(1,936,532)**	(2,150,720)
Dividends paid		**(1,438,740)**	(1,426,120)
Dividends paid to non-controlling equity holders of subsidiaries		**(339,026)**	(311,310)
Net cash flows used in financing activities		**(885,323)**	(1,330,433)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**5,430,651**	4,446,543
Cash and cash equivalents at beginning of year		**22,020,604**	17,909,131
Effect of foreign exchange rate changes, net		**1,530,707**	(335,070)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**28,981,962**	22,020,604
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits	30	**18,508,289**	10,102,694
Saving deposits placed in a financial institution (an associate of the Group)	30	**209,085**	480,695
Time deposits:			
Placed in banks	30	**8,421,862**	9,200,602
Placed in a financial institution (an associate of the Group)	30	**2,020,071**	2,411,631
Less: Restricted cash and pledged deposits	30	**(36,879)**	(36,701)
Cash and cash equivalents as stated in the consolidated statement of financial position		**29,122,428**	22,158,921
Less: Time deposits with maturity of more than three months when acquired		**(140,466)**	(138,317)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**28,981,962**	22,020,604

1. CORPORATE AND GROUP INFORMATION

Beijing Enterprises Holdings 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 "Hong Kong Stock Exchange"). The registered office and the principal place of business of the Company is located at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

During the year, the Company and its subsidiaries (collectively the "Group"), together with its joint ventures and associates, were involved in the following principal activities:

- the distribution and sale of piped natural gas and gas-related equipment, the provision of natural gas transmission, the surveying and plotting of underground construction projects, the installation of gas pipelines and related equipment and the provision of related repair and maintenance services in the mainland ("Mainland China") of the People's Republic of China (the "PRC")

- the production, distribution and sale of brewery products in Mainland China

- the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, sewage treatment, water treatment and distribution, and the provision of consultancy services and the licensing of technical know-how that is related to sewage treatment in Mainland China and certain overseas countries

- the construction and operation of waste incineration plants, waste treatment and the sale of electricity, steam and heat generated from waste incineration in Germany and Mainland China

The immediate holding company of the Company is Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI"), which is incorporated in the British Virgin Islands and, in the opinion of the directors, the ultimate holding company is 北京控股集團有限公司 ("Beijing Enterprises Group"), which is a state-owned enterprise established in the PRC and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality (the "Beijing Municipal Government").

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about principal subsidiaries

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

Company name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Gas Group Company Limited ("Beijing Gas")#	PRC/Mainland China	Renminbi("RMB") 5,883,767,802	–	100	Distribution and sale of piped gas and gas-related equipment
唐山市天然氣有限公司 ("Tangshan Gas")µ	PRC/Mainland China	RMB650,000,000	–	60	Distribution and sale of piped gas
北京燃氣平谷有限公司µ	PRC/Mainland China	RMB539,326,100	–	98.95	Distribution and sale of piped gas
北京燃氣懷柔有限公司µ	PRC/Mainland China	RMB323,280,000	–	99.54	Distribution and sale of piped gas
北京燕京啤酒投資有限公司 ("Yanjing Investment")&	PRC/Mainland China	RMB3,409,828,000	–	79.77	Investment holding
Beijing Yanjing Brewery Company Limited ("Yanjing Brewery")*/µ	PRC/Mainland China	RMB2,818,539,341	–	45.79†	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan")^/µ	PRC/Mainland China	RMB250,000,000	–	22.93†	Production and sale of beer
燕京啤酒(包頭雪鹿)股份有限公司µ	PRC/Mainland China	RMB547,303,240	–	42.32†	Production and sale of beer
燕京啤酒(桂林漓泉)股份有限公司µ	PRC/Mainland China	RMB349,366,900	–	34.69†	Production and sale of beer
燕京啤酒(赤峰)有限責任公司µ	PRC/Mainland China	RMB577,120,000	–	43.16†	Production and sale of beer
新疆燕京啤酒有限公司µ	PRC/Mainland China	RMB683,650,000	–	45.79†	Production and sale of beer
燕京啤酒(衡陽)有限公司µ	PRC/Mainland China	RMB525,660,000	–	44.80†	Production and sale of beer
四川燕京啤酒有限公司µ	PRC/Mainland China	RMB480,000,000	–	45.79†	Production and sale of beer
廣東燕京啤酒有限公司µ	PRC/Mainland China	RMB809,882,100	–	58.23†	Production and sale of beer
Beijing Enterprises Environment Group Limited ("BEEGL")Ω	Hong Kong	HK$2,227,563,951	1.16	49.23	Investment holding
西咸新區北控環保科技發展有限公司µ	PRC/Mainland China	RMB349,590,000	–	65	Solid waste treatment operation
北京北控綠海能環保有限公司&	PRC/Mainland China	RMB308,340,000	–	48.74†	Solid waste treatment operation

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about principal subsidiaries *(Continued)*

Company name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
北京高安屯垃圾焚燒有限公司&	PRC/Mainland China	RMB274,000,000	–	42.78†	Solid waste treatment operation
哈爾濱市雙琦環保資源利用有限公司&	PRC/Mainland China	RMB240,000,000	–	39.38†	Solid waste treatment operation
EEW Holding GmbH ("EEW")	Germany	EUR76,996,700	–	100	Investment holding
EEW Energy from Waste Saarbrücken GmbH	Germany	EUR20,452,000	–	100	Solid waste treatment operation
EEW Energy from Waste Helmstedt GmbH	Germany	EUR1,000,000	–	100	Solid waste treatment operation
Talent Yield (Euro) Limited Islands	British Virgin Islands	US$1	–	100	Issuer of guaranteed bonds
Top Luxury Investment Limited	British Virgin Islands	US$1	–	100	Issuer of guaranteed bonds
Talent Yield European Limited	British Virgin Islands	US$1	–	100	Issuer of guaranteed bonds
Mega Advance Investments Limited	British Virgin Islands	US$1	–	100	Issuer of guaranteed notes
Talent Yield Investments Limited	British Virgin Islands	US$1	–	100	Issuer of guaranteed notes
Beijing Gas Singapore Capital Corporation	British Virgin Islands	US$10	–	100	Issuer of guaranteed notes

This entity is registered as a wholly-foreign-owned entity under PRC law.

µ *These entities are registered as limited liability companies under PRC law.*

& *These entities are registered as Sino-foreign joint ventures under PRC law.*

† *These entities are accounted for as subsidiaries by virtue of the Company's control over them through non-wholly-owned subsidiaries.*

* *Shares of Yanjing Brewery are listed on the Shenzhen Stock Exchange.*

^ *Shares of Yanjing Huiquan are listed on the Shanghai Stock Exchange.*

Ω *Shares of BEEGL are listed on the Main Board of the Hong Kong Stock Exchange.*

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

2.1 BASIS OF PRESENTATION AND PREPARATION

Basis of presentation

Despite that the Group had net current liabilities of HK$3.7 billion and capital commitments of approximately HK$13.3 billion as at 31 December 2020, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern after taking into account, inter alia, the historical operating performance of the Group and the following:

(a) listed investments of the Group could be realised immediately for funds to enable the Group to meet its liabilities as and when they fall due; and

(b) the Company is considering to raise funds through issuance of corporate bonds in 2021.

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.

Basis of preparation

The consolidated 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 investment properties, equity and fund investments which have 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.

2.1 BASIS OF PRESENTATION AND PREPARATION *(Continued)*

Basis of preparation *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company. 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 shareholders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendments to HKFRS 16	*COVID-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

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

(a) The Conceptual Framework sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

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

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

(d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The Group early adopted the amendments from the accounting period beginning on 1 January 2020 and the amendments did not have any impact on the financial position and performance of the Group.

(e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

1 *Effective for annual periods beginning on or after 1 January 2021*

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

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

4 *No mandatory effective date yet determined but available for adoption*

5 *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*

6 *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*

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

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

(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 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 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 (2014) to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(b) *(Continued)*

The Group had certain interest-bearing bank and other borrowings denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and the London Interbank Offered Rate ("LIBOR") as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

(c) 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 joint venture or associate. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its joint venture or associate 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 joint venture or associate. 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 joint venture or associate. However, the amendments are available for adoption now.

(d) Amendments to HKAS 1 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.

(e) 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.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(f) 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.

(g) *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 (2014): 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures and associates

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.

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

The Group's investments in joint ventures and associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of joint ventures and associates is included in 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 or associate, 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 ventures or associates are eliminated to the extent of the Group's investments in the joint ventures or associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of joint ventures or associates is included as part of the Group's investments in joint ventures or associates.

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

2.4 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 control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a holding company of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to a holding company of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

The Group measures its investment properties, equity and fund investments 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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.

Property, plant and equipment and depreciation

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

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

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

Buildings	10 to 50 years
Leasehold improvements	Over the lease terms or 5 to 10 years, whichever is the shorter
Gas pipelines	25 years
Gas meters	8 years
Other plant and machinery	5 to 20 years
Furniture, fixtures and office equipment	5 to 12 years
Motor vehicles	5 to 15 years

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

Construction in progress represents gas pipelines, buildings, structures, plant and machinery and other property, plant and equipment under construction or installation, construction materials (which include materials for construction projects and equipment that needs to be installed) and prepayments for large-scale equipment. Construction in progress is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

Group as a 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 revenue or other income in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases. At the commencement date, the cost of the asset held under a finance lease is capitalised at the present value of the lease payments and related payments (including initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease, which is measured using the interest rate implicit in the lease. Subsequent to initial measurement, finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the lease.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessee (Continued)

(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:

Leasehold land	1 to 50 years
Office premises	1 to 47 years
Plant and machinery	3 to 20 years
Gas pipelines	20 years
Motor vehicles	6 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.

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessee (Continued)

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

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

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on the straight-line basis over the lease term.

Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group, ensuring that the infrastructure meets 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.

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, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for construction services under "Revenue recognition – Revenue from contracts with customers" below.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for solid waste treatment service contracts under "Revenue recognition – Revenue from contracts with customers" below. Costs relating to operating services are expensed in the period in which they are incurred.

Contractual obligations to restore the infrastructures 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 infrastructures it operates to a specified level of serviceability and/or (b) to restore the infrastructures 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 infrastructures, except for any upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible assets (other than goodwill)

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Operating concessions

Operating concessions represent the rights to operate a toll road and solid waste incineration plants, and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 15 to 40 years.

Customer contracts

Customer contracts represent the fair value of the economic benefits from several customer service agreements of the solid waste treatment operation at initial recognition. Amortisation is provided on the straight-line basis over the respective contract periods of 1 to 28 years.

Patents

Purchased patents are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 25 to 30 years.

Computer software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over its estimated useful life of 2 to 10 years.

Research and development costs

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

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

Impairment of non-financial assets

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

2.4 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 in those expense categories consistent with the function of the impaired asset.

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

Investments and other financial assets

Initial recognition and measurement

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

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

In order for a financial asset (debt instrument) to be classified and measured at amortised cost, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Initial recognition and measurement (Continued)

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

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

(a) Financial assets at amortised cost (debt instruments)

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other 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 to be in default when contractual payments are past due, in general, over 2 to 3 years based on historical pattern and credit risk management practices of the Group. 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 that 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment (Continued)

(a) General approach *(Continued)*

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

(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 a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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

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

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 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 an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

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.

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 or the weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. 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 and financial institutions, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

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:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, joint ventures and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, joint ventures and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

Governments grants

Government grants are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with.

Where a 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 a 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

(a) Piped gas operation

Revenue from the sale of piped natural gas is recognised at the point in time when the gas is consumed by the customer, based on gas consumption derived from meter readings.

Revenue from the sale of gas-related equipment is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the gas-related equipment.

(b) Sale of brewery products

Revenue from the sale of brewery products is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the brewery products.

(c) Construction services

Contract revenue comprises (i) the agreed contract amounts and appropriate amounts from variation orders, claims and incentive payments in respect of construction services and (ii) construction revenue recognised under service concession arrangements. Revenue from the construction of solid waste incineration plants under the terms of service concession arrangements is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in a similar location.

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 construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration 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. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

(d) Solid waste treatment service contracts

Revenue from the sale of electricity, steam and heat which are produced during the solid waste incineration process is recognised at the point in time when the product is transferred to the customer, generally on delivery of electricity, steam and heat.

Revenue from the solid waste collection service is recognised at the point in time when the service has been rendered.

Revenue from other sources

(a) Rental income

Rental income is recognised on the straight-line basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

(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 and investment income

Dividend and investment income is recognised when the shareholders' or investors' right to receive payment has been established, it is probable that the economic benefits associated with the dividend and investment income will flow to the Group and the amount of the dividend and investment income 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 impairment of financial assets under the policy set out for "Investments and other financial assets – Impairment" above.

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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments

BEEGL, a subsidiary of the Group, operates a share option scheme for the granting of non-transferable options, for the purpose of providing incentives and rewards, to eligible participants who contribute to the success of the operations of BEEGL and its subsidiaries (the "BEEGL Group"). Employees (including directors of BEEGL) of the BEEGL 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 for grants is measured by reference to the fair value at the date at which they are granted. The fair value of share options granted by BEEGL is determined by external valuers using the Black-Scholes-Merton option pricing model.

The cost of equity-settled transactions is recognised in profit or loss, together with a corresponding increase in the capital reserve, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. 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 BEEGL'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.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

Upon the exercise of share options, the resulting shares issued are recorded by BEEGL as its 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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 capital reserve will be transferred to retained profits as a movement in reserves.

Other employee benefits

Defined contribution schemes

The Group has joined a number of defined contribution pension schemes organised by certain provincial or municipal governments in the PRC and Germany for certain of its employees, the assets of which are held separately from those of the Group. Contributions are made based on a percentage of the eligible employees' salaries and are charged to profit or loss as they become payable, in accordance with the rules of the pension schemes. The employer contributions vest fully once made.

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

Defined benefit schemes

Certain employees of the Group can enjoy other retirement benefits after retirement such as supplementary medical reimbursement, allowance and beneficiary benefits pursuant to certain defined benefit plans of the Group. These benefits are unfunded. The costs of providing benefits under these defined benefit plans are determined using the projected unit credit method and are charged to profit or loss so as to spread the costs over the average service lives of the relevant employees in accordance with the actuarial report which contains valuation of the obligations for the year. These obligations are measured at the present value of the estimated future cash outflows. Actuarial gains and losses, which are remeasurements arising from defined benefit plans, are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to defined benefit plans reserve as other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

Defined benefit schemes (Continued)

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "administrative expenses" in profit or loss:

- service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

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 dollar, 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 differences 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

The functional currencies of certain Mainland China and overseas subsidiaries, joint ventures and associates are currencies other than 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 and statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of the exchange fluctuation reserve relating to that particular foreign operation is recognised in profit or loss.

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

For the purpose of the consolidated statement of cash flows, the cash flows of 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 overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Dividends

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

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

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 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 units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2020 was HK$16.8 billion, details of which are set out in note 17 to the financial statements.

Estimates of gas consumption

Determination of the revenue generated from the distribution and sale of piped natural gas between the date of last meter reading and the year end involves an estimation of the gas supplied to customers for whom actual meter reading is not available. The estimation is done mainly based on the billed volume from the latest meter reading period, adjusted by the location and nature of customers.

The actual consumption could deviate from those estimates.

Control consideration in respect of certain associates

The Group accounts for Beijing Enterprises Water Group Limited ("BE Water", an entity listed on the Hong Kong Stock Exchange and owned as to 41.13% by the Group as at 31 December 2020) and Beijing Gas Blue Sky Holdings Limited ("Blue Sky", an entity listed on the Hong Kong Stock Exchange and owned as to 41.13% by the Group as at 31 December 2020) as associates. In determining whether the Group has control over BE Water and Blue Sky, the Group has taken into account its effective influence it may exercise over the decisions of the boards of directors of BE Water and Blue Sky, including the voting rights held by the Group, the structure of the boards of directors and senior management of BE Water and Blue Sky and the expertise of directors designated by other shareholders. In the opinion of the Company's directors, the Group did not have the sufficient ability to exercise power to control BE Water and Blue Sky throughout the years ended 31 December 2020 and 2019 and BE Water and Blue Sky were accounted for as associates in these financial statements.

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

Estimation of fair value of investment properties and financial assets measured at fair value

The fair values of the Group's investment properties and financial assets measured at fair value are assessed by management based on valuations performed by independent professionally qualified valuers. The assumptions adopted in the investment property valuations are based on information of annual rental income and property market price per square metre, supported by (i) the terms of any existing leases and other contracts; and (ii) (when possible) external evidence such as current market rents and recent prices for similar properties in the same location and condition. The assumptions adopted in the valuation of financial assets measured at fair value are based on the quoted market prices or a market-based valuation technique based on assumptions that are not supported by observable market prices or rates.

Further details of the fair value estimation of the investment properties and financial assets measured at fair value, including the key assumptions used for fair value measurement and a sensitivity analysis, are set out in notes 15 and 48 to the financial statements.

Impairment assessment of investments in associates

Management determines whether investments in associates have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. This requires an estimation of the value in use or fair value less costs of disposal of the cash-generating units ("CGUs") and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets or their related CGUs, various assumptions, including future cash flows and discount rates. The carrying amount of investments in associates as at 31 December 2020 were HK$61.0 billion, details of which is set out in note 22 to the financial statements.

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

The carrying amounts of items of property, plant and equipment, right-of-use assets, operating concessions and other intangible assets of certain brewery and solid waste treatment operations were reviewed for impairment during the year in accordance with the accounting policy as disclosed in note 2.4 to the financial statements in light of events or changes in circumstances which indicated that the carrying amounts may not be recoverable. 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 or their related CGUs, various assumptions, including future cash flows 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. The carrying amounts of property, plant and equipment, right-of-use assets, operating concessions and other intangible assets of the related CGUs carried as assets in the consolidated statement of financial position as at 31 December 2020 were HK$4.7 billion, HK$405 million, HK$4.4 billion and HK$134 million, respectively, details of which are set out in note 20 to the financial statements.

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 piped gas operation segment engages in the distribution and sale of piped natural gas and gas-related equipment, the provision of natural gas transmission, the surveying and plotting of underground construction projects, and installation of gas pipelines and related equipment and the provision of related repair and maintenance services in Mainland China;

(b) the brewery operation segment produces, distributes and sells brewery products in Mainland China;

(c) the water and environmental operation segment engages in the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, sewage treatment, water treatment and distribution, and the provision of consultancy services and the licensing of technical know-how that is related to sewage treatment in Mainland China and certain overseas countries;

(d) the solid waste treatment operation segment engages in the construction and operation of waste incineration plants, waste treatment and the sale of electricity, steam and heat generated from waste incineration in Germany and Mainland China; and

(e) the corporate and others segment comprises consultation services, property investment and corporate income and expense items.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on the profit for the year of each reportable operating segment, 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.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2020

	Piped gas operation *HK$'000*	Brewery operation *HK$'000*	Water and environmental operation *HK$'000*	Solid waste treatment operation *HK$'000*	Corporate and others *HK$'000*	Inter-segment elimination *HK$'000*	Consolidated *HK$'000*
Segment revenue *(note 5)*	48,550,430	11,046,394	–	8,810,619	–	–	68,407,443
Cost of sales	(43,852,391)	(7,155,053)	–	(6,535,102)	–	–	(57,542,546)
Gross profit	4,698,039	3,891,341	–	2,275,517	–	–	10,864,897
Profit from operating activities	2,804,268	356,482	–	462,912	52,668	–	3,676,330
Finance costs	(358,992)	(23,158)	–	(210,707)	(1,405,180)	–	(1,998,037)
Share of profits and losses of:							
Joint ventures	16,565	–	–	–	–	–	16,565
Associates	3,195,791	16,411	1,720,659	25,538	–	–	4,958,399
Profit/(loss) before tax	5,657,632	349,735	1,720,659	277,743	(1,352,512)	–	6,653,257
Income tax	(438,836)	(190,106)	–	(352,904)	(24,948)	–	(1,006,794)
Profit/(loss) for the year	5,218,796	159,629	1,720,659	(75,161)	(1,377,460)	–	5,646,463
Segment profit/(loss) attributable to shareholders of the Company	5,260,233	(31,133)	1,720,659	(285,413)	(1,377,458)	–	5,286,888
Segment assets	122,118,783	22,978,662	15,836,203	38,284,776	13,442,424	(7,856,427)	204,804,421
Segment liabilities	38,747,877	7,899,876	–	19,544,802	49,042,571	(7,856,427)	107,378,699
Other segment information:							
Interest income	293,795	88,163	–	11,523	211,568	–	605,049
Finance income on the net investment in a finance lease	–	–	–	59,526	–	–	59,526
Depreciation of items of property, plant and equipment	2,061,004	947,757	–	798,628	9,553	–	3,816,942
Depreciation of right-of-use assets	55,738	44,649	–	52,300	16,694	–	169,381
Amortisation of operating concessions	–	–	–	155,903	–	–	155,903
Amortisation of other intangible assets	156,389	–	–	181,177	–	–	337,566
Impairment against segment assets, net*	54,802	111,670	–	1,098,684	–	–	1,265,156
Investments in joint ventures	385,864	–	–	–	6,652	–	392,516
Investments in associates	43,795,301	330,993	15,773,917	71,000	1,010,938	–	60,982,149
Capital expenditure**	2,881,076	345,411	–	2,299,750	25,320	–	5,551,557

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2019

	Piped gas operation *HK$'000*	Brewery operation *HK$'000*	Water and environmental operation *HK$'000*	Solid waste treatment operation *HK$'000*	Corporate and others *HK$'000*	Inter-segment elimination *HK$'000*	Consolidated *HK$'000*
Segment revenue *(note 5)*	47,517,770	11,826,321	–	8,438,937	–	–	67,783,028
Cost of sales	(42,699,589)	(8,010,183)	–	(6,127,119)	–	–	(56,836,891)
Gross profit	4,818,181	3,816,138	–	2,311,818	–	–	10,946,137
Profit/(loss) from operating activities	2,745,406	402,537	–	1,799,744	(167,969)	–	4,779,718
Finance costs	(372,147)	(21,565)	–	(174,222)	(1,627,034)	–	(2,194,968)
Share of profits and losses of:							
Joint ventures	28,810	–	–	–	–	–	28,810
Associates	4,888,992	26,185	2,026,934	40,307	–	–	6,982,418
Profit/(loss) before tax	7,291,061	407,157	2,026,934	1,665,829	(1,795,003)	–	9,595,978
Income tax	(437,085)	(184,686)	–	(395,207)	(5,391)	–	(1,022,369)
Profit/(loss) for the year	6,853,976	222,471	2,026,934	1,270,622	(1,800,394)	–	8,573,609
Segment profit/(loss) attributable to shareholders of the Company	6,873,408	1,073	2,026,934	953,794	(1,800,429)	–	8,054,780
Segment assets	110,776,401	21,273,476	13,028,341	34,142,062	13,696,288	(7,110,292)	185,806,276
Segment liabilities	34,577,988	6,994,699	–	17,356,966	46,972,088	(7,110,292)	98,791,449
Other segment information:							
Interest income	118,370	37,370	–	17,998	80,985	–	254,723
Finance income on the net investment in a finance lease	–	–	–	61,516	–	–	61,516
Depreciation of items of property, plant and equipment	1,961,728	902,886	–	717,537	10,390	–	3,592,541
Depreciation of right-of-use assets	107,276	37,890	–	49,606	4,126	–	198,898
Amortisation of operating concessions	–	–	–	131,863	–	–	131,863
Amortisation of other intangible assets	56,068	–	–	179,366	–	–	235,434
Impairment against segment assets, net*	53,091	78,392	–	168,658	386,998	–	687,139
Investments in joint ventures	321,039	–	–	–	6,652	–	327,691
Investments in associates	42,938,981	304,542	12,978,985	67,012	955,315	–	57,244,835
Capital expenditure**	2,729,022	652,288	–	2,369,841	71,051	–	5,822,202

* *These amounts are recognised in the consolidated statement of profit or loss and included impairment/(reversal of impairment) against goodwill, items of property, plant and equipment, right-of-use assets, operating concessions, other intangible assets, investment in an investee, trade receivables and other receivables.*

** *Capital expenditure consists of additions to property, plant and equipment, investment properties, right-of-use assets, operating concessions and other intangible assets, excluding assets from the acquisition of subsidiaries.*

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

	2020	2019
	HK$'000	*HK$'000*
Mainland China	**62,743,815**	62,463,119
Germany	**5,663,628**	5,319,909
	68,407,443	67,783,028

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2020	2019
	HK$'000	*HK$'000*
Mainland China	**117,194,511**	110,149,631
Germany	**19,030,762**	17,264,018
Russian Federation ("Russia")	**8,567,615**	9,278,849
Elsewhere	**224,109**	239,838
	145,016,997	136,932,336

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

During each of the years ended 31 December 2020 and 2019, no single external customer contributed 10% or more of the Group's revenue.

5. REVENUE

Revenue of the Group for each of the years ended 31 December 2020 and 2019 was all revenue from contracts with customers and represented revenue generated from the piped gas operation, brewery operation and solid waste treatment operation.

(a) Disaggregated revenue information

Year ended 31 December 2020

Segments	Piped gas operation *HK$'000*	Brewery operation *HK$'000*	Solid waste treatment operation *HK$'000*	Total *HK$'000*
Types of goods or services				
Sale of piped natural gas	46,766,023	–	–	46,766,023
Sale of gas-related equipment	737,592	–	–	737,592
Sale of brewery products	–	11,046,394	–	11,046,394
Construction services	1,046,815	–	1,386,387	2,433,202
Solid waste collection services	–	–	5,381,697	5,381,697
Sale of electricity, steam and heat	–	–	2,042,535	2,042,535
Total revenue from contracts with customers	48,550,430	11,046,394	8,810,619	68,407,443
Geographical markets				
Mainland China	48,550,430	11,046,394	3,146,991	62,743,815
Germany	–	–	5,663,628	5,663,628
Total revenue from contracts with customers	48,550,430	11,046,394	8,810,619	68,407,443
Timing of revenue recognition				
Goods transferred at a point in time	47,503,615	11,046,394	2,042,535	60,592,544
Services transferred at a point in time	–	–	5,381,697	5,381,697
Services transferred over time	1,046,815	–	1,386,387	2,433,202
Total revenue from contracts with customers	48,550,430	11,046,394	8,810,619	68,407,443

5. REVENUE *(Continued)*

(a) Disaggregated revenue information *(Continued)*

Year ended 31 December 2019

Segments	Piped gas operation *HK$'000*	Brewery operation *HK$'000*	Solid waste treatment operation *HK$'000*	Total *HK$'000*
Types of goods or services				
Sale of piped natural gas	46,537,696	–	–	46,537,696
Sale of gas-related equipment	517,163	–	–	517,163
Sale of brewery products	–	11,826,321	–	11,826,321
Construction services	462,911	–	1,803,099	2,266,010
Solid waste collection services	–	–	4,541,691	4,541,691
Sale of electricity, steam and heat	–	–	2,094,147	2,094,147
Total revenue from contracts with customers	47,517,770	11,826,321	8,438,937	67,783,028
Geographical markets				
Mainland China	47,517,770	11,826,321	3,119,028	62,463,119
Germany	–	–	5,319,909	5,319,909
Total revenue from contracts with customers	47,517,770	11,826,321	8,438,937	67,783,028
Timing of revenue recognition				
Goods transferred at a point in time	47,054,859	11,826,321	2,094,147	60,975,327
Services transferred at a point in time	–	–	4,541,691	4,541,691
Services transferred over time	462,911	–	1,803,099	2,266,010
Total revenue from contracts with customers	47,517,770	11,826,321	8,438,937	67,783,028

5. REVENUE *(Continued)*

(a) Disaggregated revenue information *(Continued)*

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2020	2019
	HK$'000	*HK$'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	**9,384,566**	7,848,647
Rendering of solid waste treatment services	**57,258**	86,596
	9,441,824	7,935,243

(b) Performance obligations

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

Piped gas operation

The performance obligation in respect of sale of piped natural gas is satisfied upon delivery of gas and payment is generally due within 10 days from the date of billing.

The performance obligation in respect of sale of gas-related equipment is satisfied upon delivery of gas-related equipment and payment is generally due within 30 days from delivery.

Sale of brewery products

The performance obligation is satisfied upon delivery of brewery products and payment is generally due within 30 days from delivery.

Construction services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 90 days from the date of billing.

5. REVENUE *(Continued)*

(b) Performance obligations *(Continued)*

Solid waste treatment services

The performance obligation in respect of sale of electricity, steam and heat is satisfied upon delivery of electricity, steam and heat and payment is generally due within 30 days from delivery.

The performance obligation in respect of solid waste collection service is satisfied at the point in time when the service is rendered and payment is generally due within 30 days from the date of solid waste collection.

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 31 December are as follows:

	2020	2019
	HK$'000	*HK$'000*
Expected to be recognised within one year	**2,069,342**	2,105,368
Expected to be recognised after one year	**1,731,406**	1,776,291
Total *(note)*	**3,800,748**	3,881,659

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

Note: The Group has applied the practical expedient in HKFRS 15 to its revenue from solid waste treatment services contracts for not disclosing the remaining performance obligations under the Group's existing 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.

6. OTHER INCOME AND GAINS, NET

	Note	2020 HK$'000	2019 HK$'000
Other income			
Bank interest income		**605,049**	254,723
Finance income on the net investment in a finance lease		**59,526**	61,516
Rental income		**58,928**	50,310
Government grants*		**173,529**	174,053
Transfer of assets from customers	*14*	**58,851**	115,914
Dividend income of equity investments at fair value through other comprehensive income		**67,913**	49,402
Investment income of a financial asset at fair value through profit or loss		**154,128**	160,284
Others		**589,564**	519,058
		1,767,488	1,385,260
Gains, net			
Gain on disposal of items of property, plant and equipment, net		**–**	2,240
Foreign exchange differences, net		**43,848**	–
		43,848	2,240
Other income and gains, net		**1,811,336**	1,387,500

* *Government grants represented government subsidies and turnover tax refunds in respect of the Group's operations in Mainland China. Turnover tax includes value-added tax, city construction tax and education surcharge. The government grants are unconditional, except for certain grants that must be utilised for business development of the Company's subsidiaries.*

7. FINANCE COSTS

	Notes	2020 HK$'000	2019 HK$'000
Interest on bank loans and other loans		**919,875**	1,049,473
Interest on guaranteed bonds and notes		**1,048,095**	1,101,247
Interest on lease liabilities	*16(b)*	**28,993**	45,573
Total interest expenses		**1,996,963**	2,196,293
Increase in discounted amounts of provision for major overhauls arising from the passage of time	*37*	**1,074**	1,815
Total finance costs		**1,998,037**	2,198,108
Less: Interest capitalised in construction in progress		**–**	(3,140)
		1,998,037	2,194,968

8. PROFIT BEFORE TAX

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

	Notes	2020 HK$'000	2019 HK$'000
Cost of inventories sold*		**54,746,367**	54,198,006
Cost of services provided*		**2,473,606**	2,340,908
Depreciation of items of property, plant and equipment	*14*	**3,816,942**	3,592,541
Depreciation of right-of-use assets	*16(b)*	**169,381**	198,898
Amortisation of operating concessions*	*18*	**155,903**	131,863
Amortisation of other intangible assets**	*19*	**337,566**	235,434
Provision for major overhauls***	*37*	**23,088**	21,508
Research and development expenditure***		**353,562**	268,120
Loss on disposal of items of property, plant and equipment, net		**47,031**	–
Lease payments not included in the measurement of lease liabilities	*16(b)*	**73,010**	189,227
Auditor's remuneration paid and payable to:			
Auditor of the Company		**10,700**	10,700
Auditor of an associate		**5,300**	5,300
Employee benefit expense *(including directors' remuneration – note 9):*			
Salaries, allowances and benefits in kind		**6,542,911**	6,727,330
Net pension scheme contributions^		**197,038**	496,024
Net benefit expense of defined benefit plans**	*36(a), 36(b)*	**160,093**	160,567
		6,900,042	7,383,921
Less: Amount capitalised in construction in progress/operating concessions		**(14,359)**	(51,712)
		6,885,683	7,332,209
Foreign exchange differences, net		**(43,848)**	28,245
Impairment of non-current non-financial assets#		**1,208,193**	538,711
Impairment of financial assets, net:			
Impairment/(reversal of impairment) of trade receivables, net***	*26(d)*	**55,541**	(56,825)
Impairment of other receivables, net***	*27(c)*	**1,422**	205,253
		56,963	148,428
Write-down of inventories to net realisable value		**34,151**	–
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**28,341**	38,812

8. PROFIT BEFORE TAX *(Continued)*

* *These items are included in "Cost of sales" on the face of the consolidated statement of profit or loss.*

** *These items are included in "Administrative expenses" on the face of the consolidated statement of profit or loss, except for amortisation of certain other intangible assets in a total amount of HK$166,670,000 (2019: HK$166,114,000) which is included in "Cost of sales".*

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

\# *This item is included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss and included impairment against goodwill, items of property, plant and equipment, right-of-use assets, operating concessions, other intangible assets and investment in an investee.*

^ *During the year ended 31 December 2020, the Ministry of Human Resources and Social Security, the Ministry of Finance and the State Taxation Administration of the PRC issued a guideline on exempting social insurance payments of enterprises in order to mitigate the impact of COVID-19 pandemic. The net pension scheme contributions in the PRC was subject to the exemption and certain of the Company's subsidiaries established in Mainland China enjoyed the exemption of social insurance payments.*

Had the exemption not taken place during the year, the net pension scheme contributions for the year would have increased by HK$342,668,000.

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Hong Kong 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:

	2020	2019
	HK$'000	*HK$'000*
Fees	**1,530**	1,350
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**3,879**	8,333
Pension scheme contributions	**29**	29
	3,908	8,362
	5,438	9,712

9. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2020				
Executive directors:				
Mr. Hou Zibo#	–	539	–	539
Mr. Li Yongcheng	–	539	–	539
Mr. Zhao Xiaodong	–	–	–	–
Mr. Jiang Xinhao	–	539	–	539
Mr. Tam Chun Fai	150	2,262	29	2,441
Mr. E Meng*	–	–	–	–
	150	3,879	29	4,058
Independent non-executive directors:				
Mr. Wu Jiesi	345	–	–	345
Mr. Lam Hoi Ham	345	–	–	345
Mr. Sze Chi Ching	345	–	–	345
Mr. Yu Sun Say	345	–	–	345
Mr. Ma She Ω	–	–	–	–
	1,380	–	–	1,380
Total directors' remuneration	1,530	3,879	29	5,438

Subsequent to the reporting period, Mr. Hou Zibo resigned as an executive director of the Company with effect from 2 February 2021.

* *Mr. E Meng resigned as an executive director of the Company with effect from 3 January 2020.*

Ω *Mr. Ma She resigned as an independent non-executive director of the Company with effect from 21 January 2020.*

9. DIRECTORS' REMUNERATION *(Continued)*

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2019				
Executive directors:				
Mr. Hou Zibo	–	1,757	–	1,757
Mr. Li Yongcheng	–	1,452	–	1,452
Mr. Zhao Xiaodong	–	–	–	–
Mr. E Meng	–	1,452	–	1,452
Mr. Jiang Xinhao	–	1,452	–	1,452
Mr. Tam Chun Fai	150	2,220	29	2,399
	150	8,333	29	8,512
Independent non-executive directors:				
Mr. Wu Jiesi	300	–	–	300
Mr. Lam Hoi Ham	300	–	–	300
Mr. Sze Chi Ching	300	–	–	300
Mr. Yu Sun Say	300	–	–	300
Mr. Ma She	–	–	–	–
	1,200	–	–	1,200
Total directors' remuneration	1,350	8,333	29	9,712

Other than Messrs. Zhao Xiaodong and Ma She who waived their remuneration from the Company for each of the years ended 31 December 2020 and 2019, there was no agreement under which a director waived or agreed to waive any remuneration during these years.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2020 and 2019 are neither a director nor chief executive of the Company and details of their remuneration for the year are as follows:

	2020 *HK$'000*	2019 *HK$'000*
Salaries, allowances and benefits in kind	**25,909**	25,389
Pension scheme contributions	**2,724**	1,309
	28,632	26,698

The number of the five non-director and non-chief executive highest paid employees whose remuneration for the year ended 31 December 2020 and 2019 fell within the following bands is as follows:

	Number of employees	
	2020	2019
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**–**	1
HK$5,000,001 to HK$5,500,000	**1**	–
HK$5,500,001 to HK$6,000,000	**1**	1
HK$6,000,001 to HK$6,500,000	**1**	1
HK$8,500,001 to HK$9,000,000	**1**	1
	5	5

11. INCOME TAX

	2020 HK$'000	2019 HK$'000
Current – Hong Kong	**11,475**	3,303
Current – Mainland China		
Charge for the year	**556,742**	601,427
Underprovision in prior years	**36,255**	–
Current – Germany		
Charge for the year	**407,151**	392,043
Overprovision in prior years	**(33,696)**	(63,750)
Current – Others	**40,768**	48,603
Deferred *(note 39)*	**(11,901)**	40,743
Total tax expense for the year	**1,006,794**	1,022,369

Notes:

(a) Applicable income tax rates

A summary of applicable income tax rates of the jurisdictions in which the Group has operations during the year is as follows:

	2020 %	2019 %
Hong Kong	**16.5**	16.5
Mainland China*	**25**	25
Germany	**30**	30

* *In accordance with the relevant tax rates and regulations of the PRC, certain of the Company's subsidiaries established in Mainland China enjoy PRC corporate income tax exemptions and reductions.*

11. INCOME TAX *(Continued)*

Notes: (Continued)

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

Year ended 31 December 2020

	Hong Kong		Mainland China		Germany		Others		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	1,965,962		2,973,852		1,137,717		575,726		6,653,257	
Tax expense at the statutory tax rate	324,388	16.5	743,464	25.0	341,315	30.0	115,145	20.0	1,524,312	22.9
Lower tax rate for specific provinces or enacted by local authority	–	–	(581,280)	(19.5)	(6,624)	(0.6)	–	–	(587,904)	(8.8)
Effect of withholding tax on distributable profit	11,475	0.6	–	–	–	–	40,768	7.1	52,243	0.8
Adjustments in respect of current tax of previous periods	–	–	36,255	1.2	(33,696)	(3.0)	–	–	2,559	0.0
Profits and losses attributable to joint ventures and associates	(645,329)	(32.8)	50,423	1.7	–	–	(115,145)	(20.0)	(710,051)	(10.7)
Income not subject to tax	(40,091)	(2.0)	(404,647)	(13.6)	(3,456)	(0.3)	–	–	(448,194)	(6.7)
Expenses not deductible for tax	357,370	18.2	437,429	14.7	16,993	1.5	–	–	811,792	12.2
Tax losses not recognised as deferred tax assets	3,662	0.2	358,375	12.1	–	–	–	–	362,037	5.4
Tax expense at the Group's effective tax rate	11,475	0.6	640,019	21.5	314,532	27.6	40,768	7.1	1,006,794	15.1

11. INCOME TAX *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Year ended 31 December 2019

	Hong Kong		Mainland China		Germany		Others		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	2,679,738		4,633,084		1,113,856		1,169,300		9,595,978	
Tax expense at the statutory tax rate	442,162	16.5	1,158,271	25.0	334,157	30.0	233,860	20.0	2,168,450	22.6
Lower tax rate for specific provinces or enacted by local authority	–	–	(632,397)	(13.6)	–	–	–	–	(632,397)	(6.6)
Effect of withholding tax on distributable profit	1,511	0.1	1,904	0.0	–	–	48,603	4.2	52,018	0.5
Adjustments in respect of current tax of previous periods	–	–	–	–	(63,750)	(5.7)	–	–	(63,750)	(0.7)
Profits and losses attributable to joint ventures and associates	(739,556)	(27.6)	(217,933)	(4.7)	–	–	(233,860)	(20.0)	(1,191,349)	(12.4)
Income not subject to tax	(14,455)	(0.5)	(48,847)	(1.1)	(15,733)	(1.4)	–	–	(79,035)	(0.8)
Expenses not deductible for tax	308,767	11.5	192,665	4.2	22,678	2.0	–	–	524,110	5.5
Tax losses not recognised as deferred tax assets	4,874	0.2	238,542	5.1	906	0.1	–	–	244,322	2.5
Tax expense at the Group's effective tax rate	3,303	0.1	692,205	14.9	278,258	25.0	48,603	4.2	1,022,369	10.7

(c) The share of tax attributable to joint ventures and associates amounting to HK$3,655,000 (2019: HK$4,588,000) and HK$1,784,461,000 (2019: HK$2,180,628,000), respectively, is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

12. DIVIDENDS

	2020	2019
	HK$'000	*HK$'000*
Interim – HK$0.4 (2019: HK$0.40) per ordinary share	**504,821**	504,821
Proposed final – HK$0.74 (2019: HK$0.74) per ordinary share	**933,919**	933,919
	1,438,740	1,438,740

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to shareholders of the Company of HK$5,286,888,000 (2019: HK$8,054,780,000), and the weighted average number of ordinary shares of 1,262,053,268 (2019: 1,262,053,268) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for each of the years ended 31 December 2020 and 2019 for a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

14. PROPERTY, PLANT AND EQUIPMENT

	Notes	Buildings HK$'000 (note (a))	Leasehold improvements HK$'000	Gas pipelines HK$'000	Gas meters and other plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2020									
At 1 January 2020:									
Cost		16,149,051	193,186	24,698,788	38,019,257	1,723,373	939,177	6,807,249	88,530,081
Accumulated depreciation and impairment		(4,931,853)	(27,009)	(7,908,517)	(21,921,791)	(1,012,767)	(564,869)	(264,356)	(36,631,162)
Net carrying amount		11,217,198	166,177	16,790,271	16,097,466	710,606	374,308	6,542,893	51,898,919
Net carrying amount:									
At 1 January 2020		11,217,198	166,177	16,790,271	16,097,466	710,606	374,308	6,542,893	51,898,919
Acquisition of subsidiaries	43	14,055	–	56,880	9,114	2,437	11,499	24,558	118,543
Additions		379,709	4,422	110,766	963,841	89,447	29,140	2,771,116	4,348,441
Transfer of assets from customers	6	–	–	58,851	–	–	–	–	58,851
Transfer from construction in progress		91,836	–	761,400	701,726	29,924	2,458	(1,587,344)	–
Actual cost adjustment		(429,185)	–	166,695	262,603	–	–	–	113
Depreciation provided during the year	8	(462,252)	(10,340)	(1,311,631)	(1,815,142)	(152,110)	(65,467)	–	(3,816,942)
Impairment provided during the year	20	(41,604)	–	–	(51,305)	(32)	–	–	(92,941)
Disposals		(112)	(33)	(645)	(63,907)	(16,019)	(3,465)	(273,064)	(357,245)
Reclassification from right-of-use assets	16(b)	–	–	683,664	–	–	–	–	683,664
Offsetting government grants		(7,156)	–	(249,966)	(2,226)	–	–	–	(259,348)
Exchange realignment		666,987	16,780	1,017,415	1,107,827	41,998	24,677	453,229	3,328,913
At 31 December 2020		11,479,476	177,006	18,083,700	17,209,997	706,251	373,150	7,931,388	55,910,968
At 31 December 2020:									
Cost		17,195,393	215,935	27,924,565	42,361,144	1,927,073	995,769	8,210,825	98,830,704
Accumulated depreciation and impairment		(5,765,917)	(38,929)	(9,840,865)	(25,151,147)	(1,220,822)	(622,619)	(279,437)	(42,919,736)
Net carrying amount		11,429,476	177,006	18,083,700	17,209,997	706,251	373,150	7,931,388	55,910,968

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

	Notes	Buildings HK$'000 (note (a))	Leasehold improvements HK$'000	Gas pipelines HK$'000	Gas meters and other plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2019									
At 1 January 2019:									
Cost		16,236,423	167,723	24,391,726	35,939,094	1,379,372	903,039	6,737,072	85,754,449
Accumulated depreciation and impairment		(4,640,711)	(21,771)	(6,645,144)	(21,010,493)	(958,778)	(548,652)	(268,405)	(34,093,954)
Net carrying amount		11,595,712	145,952	17,746,582	14,928,601	420,594	354,387	6,468,667	51,660,495
Net carrying amount:									
At 1 January 2019		11,595,712	145,952	17,746,582	14,928,601	420,594	354,387	6,468,667	51,660,495
Acquisition of subsidiaries	43	181,912	–	99,639	48,470	247,996	5,265	401,173	984,455
Additions		116,354	29,919	132,621	549,256	86,691	85,299	3,259,794	4,259,934
Actual cost adjustment		(485,227)	–	(250,373)	843,589	1,558	2,019	–	111,566
Transfer of assets from customers	6	–	–	30,238	85,676	–	–	–	115,914
Transfer from construction in progress		393,195	–	1,207,481	1,727,461	77,656	6,317	(3,412,110)	–
Depreciation provided during the year	8	(358,956)	(5,494)	(1,330,696)	(1,733,866)	(94,712)	(68,817)	–	(3,592,541)
Disposals		(9,366)	–	(15,894)	(35,658)	(1,257)	(4,204)	(55,214)	(121,593)
Offsetting government grants		(18,226)	–	(555,598)	–	(11,214)	–	–	(585,038)
Exchange realignment		(198,200)	(4,200)	(273,729)	(316,063)	(16,706)	(5,958)	(119,417)	(934,273)
At 31 December 2019		11,217,198	166,177	16,790,271	16,097,466	710,606	374,308	6,542,893	51,898,919
At 31 December 2019:									
Cost		16,149,051	193,186	24,698,788	38,019,257	1,723,373	939,177	6,807,249	88,530,081
Accumulated depreciation and impairment		(4,931,853)	(27,009)	(7,908,517)	(21,921,791)	(1,012,767)	(564,869)	(264,356)	(36,631,162)
Net carrying amount		11,217,198	166,177	16,790,271	16,097,466	710,606	374,308	6,542,893	51,898,919

Notes:

(a) At 31 December 2020, a building in relation to a solid waste incineration plant of the Group situated in Mainland China with a net carrying amount of HK$282,873,000 (2019: HK$45,322,000) were pledged to secure a bank loan granted to the Group (note 34(c)).

(b) During the year, an impairment of HK$92,941,000 (2019: Nil) was recognised against the property, plant and equipment of the Group's brewery and solid waste treatment operations, details of which are set out in notes 20(a) and 20(b) to the financial statements.

15. INVESTMENT PROPERTIES

	2020 HK$'000	2019 HK$'000
Carrying amount as at 1 January	**1,131,346**	1,147,395
Exchange realignment	**58,350**	(16,049)
Carrying amount as at 31 December	**1,189,696**	1,131,346

Notes:

(a) The investment properties are office buildings or premises and are leased to third parties under operating leases, further summary details of which are included in note 16(a) to the financial statements.

(b) Each year, the Group's chief financial officer decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group holds discussion with valuers on the valuation assumptions and valuation results once a year when the valuation is performed for the purpose of annual financial reporting.

At 31 December 2020, the investment properties were revalued based on valuations performed by Cushman & Wakefield, independent professionally qualified valuers, using the investment method and direct comparison method. No fair value gain or loss was recognised on the Group's investment properties during the year ended 31 December 2020 (2019: Nil) as there were no material changes in the fair value of these properties when compared to those as at 31 December 2019.

The fair values of all the Group's investment properties were revalued using significant unobservable inputs (Level 3 fair value measurement). During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2019: Nil). The definitions of Level 1, Level 2 and Level 3 are explained under the policy set out for "Fair value measurement" in note 2.4 to the financial statements.

15. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Set out below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

Type of properties	Valuation techniques*	Significant unobservable inputs	Range 2020	2019
Office buildings or premises	Investment method and direct comparison method	Estimated rental value per square metre and per month (HK$)	**77 to 410**	74 to 374
		Capitalisation rate	**6.75% to 7.75%**	6.75% to 7.75%
		Price per square metre (HK$)	**10,289 to 60,533**	10,009 to 57,940

* *Valuations were based on either the investment method by capitalisation of net rental income derived from the existing tenancies with provisions for revisionary rental income potential or the direct comparison method by reference to comparable market transactions.*

A significant increase (decrease) in the estimated rental value or price per square metre in isolation would result in a significantly higher (lower) fair value of the investment properties. A significant increase (decrease) in the capitalisation rate in isolation would result in a significantly lower (higher) fair value of the investment properties.

Generally, a change in the assumption made for the price per square metre is accompanied by a directionally similar change in estimated rental value per square metre and per month and an opposite change in the capitalisation rate.

16. LEASES

(a) Group as a lessor

Finance lease receivable under a finance lease

One of the Group's solid waste incineration plants in Germany is leased out under a finance lease arrangement, which has a remaining lease term of 3.5 years (2019: 4.5 years).

At 31 December 2020, the maturity analysis of the undiscounted lease payments receivable by the Group in future periods in respect of the finance lease and their present values is as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2020	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts receivable:				
Within one year	**150,645**	138,872	**145,885**	134,483
After one year but within two years	**150,645**	138,872	**136,046**	125,416
After two years but within three years	**150,645**	138,872	**126,879**	116,960
After three years but within four years	**503,900**	138,872	**392,068**	109,076
After four years but within five years	**–**	464,526	**–**	337,068
Total minimum finance lease receivables	**955,835**	1,020,014	**800,878**	823,003
Less: Unearned finance income	**(154,957)**	(197,011)		
Total net receivable under a finance lease	**800,878**	823,003		
Portion classified as current assets	**(98,535)**	(84,707)		
Non-current portion	**702,343**	738,296		

The Group provides for the lifetime ECL for the receivable under a finance lease based on the credit rating of the lessee. Based on historical data and management's analysis, the loss on collection was not material and hence no provision for ECL was considered necessary.

16. LEASES *(Continued)*

(a) Group as a lessor *(Continued)*

Operating leases

The Group leases its investment properties (note 15) consisting of office buildings or premises in the PRC to third parties under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits. Rental income recognised by the Group during the year was HK$58,928,000 (2019: HK$50,310,000), details of which are included in note 6 to the financial statements.

At 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020	2019
	HK$'000	*HK$'000*
Within one year	**61,668**	76,748
After one year but within two years	**25,132**	45,501
After two years but within three years	**8,854**	15,728
Total	**95,654**	137,977

(b) Group as a lessee

The Group has lease arrangements as a lessee for various items of land, office premises, staff quarters, plant and machinery, gas pipelines and motor vehicles for use in its operations. These lease arrangements generally have the following lease terms:

Leasehold land	1 to 50 years
Office premises	1 to 47 years
Plant and machinery	3 to 20 years
Gas pipelines	20 years
Motor vehicles	6 years

Lump sum payments were made upfront to acquire the leased land from the owners, and no ongoing payments will be made under the terms of these land leases. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension options, which are further discussed below.

16. LEASES *(Continued)*

(b) Group as a lessee *(Continued)*

Right-of-use assets

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

	Notes	Leasehold land HK$'000	Office premises HK$'000	Plant and machinery HK$'000	Gas pipelines HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2019		1,507,429	531,503	57,068	–	–	2,096,000
Acquisition of subsidiaries	43	–	–	–	751,948	–	751,948
Additions		45,390	170,355	22,908	–	14,093	252,746
Depreciation provided during the year	8	(30,606)	(111,258)	(9,279)	(42,581)	(5,174)	(198,898)
Exchange realignment		(22,665)	(11,858)	(1,445)	(25,703)	(239)	(61,910)
At 31 December 2019 and 1 January 2020		**1,499,548**	**578,742**	**69,252**	**683,664**	**8,680**	**2,839,886**
Acquisition of subsidiaries	43	**57**	**536**	**–**	**–**	**–**	**593**
Additions		**3,698**	**42,513**	**9,463**	**–**	**5,853**	**61,527**
Depreciation provided during the year	8	**(31,626)**	**(121,973)**	**(9,693)**	**–**	**(6,089)**	**(169,381)**
Impairment provided during the year	20	**(25,184)**	**–**	**–**	**–**	**–**	**(25,184)**
Reclassification to property, plant and equipment	14	**–**	**–**	**–**	**(683,664)**	**–**	**(683,664)**
Exchange realignment		**78,806**	**28,252**	**5,153**	**–**	**724**	**112,935**
At 31 December 2020		**1,525,299**	**528,070**	**74,175**	**–**	**9,168**	**2,136,712**

16. LEASES *(Continued)*

(b) Group as a lessee *(Continued)*

Lease liabilities

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

	Notes	2020 HK$'000	2019 HK$'000
At 1 January		**849,017**	570,048
New leases		**61,527**	252,746
Acquisition of subsidiaries	*43*	**593**	339,182
Accretion of interest recognised during the year	*7*	**28,993**	45,573
Payments		**(162,640)**	(334,103)
Reclassification to bank and other borrowings		**(157,303)**	–
Exchange realignment		**105,732**	(24,429)
At 31 December		**725,919**	849,017
Portion classified as current liabilities		**(117,114)**	(164,738)
Non-current portion		**608,805**	684,279

The maturity analysis of lease liabilities is disclosed in note 49 to the financial statements.

Extension options

The Group has several lease contracts that include extension options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and they are aligned with the Group's business needs. Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension options that are not included in the lease terms:

2020

	Payable within five years HK$'000	Payable after five years HK$'000	Total HK$'000
Extension options expected not to be exercised	**33,705**	**7,906**	**41,611**

16. LEASES *(Continued)*

(b) Group as a lessee *(Continued)*

Extension options (Continued)

2019

	Payable within five years HK$'000	Payable after five years HK$'000	Total HK$'000
Extension options expected not to be exercised	26,090	5,347	31,437

Other lease information

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

	2020 **HK$'000**	2019 HK$'000
Interest on lease liabilities	**28,993**	45,573
Depreciation of right-of-use assets	**169,381**	198,898
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales, administrative expenses and other operating expenses)	**60,864**	177,592
Expense relating to leases of low-value assets (included in administrative expenses)	**12,146**	11,635
Impairment of right-of-use assets	**25,184**	–
Total amount recognised in profit or loss	**296,568**	433,698

The total cash outflow for leases is disclosed in note 44(c) to the financial statements.

17. GOODWILL

	2020 HK$'000	2019 HK$'000
At 1 January:		
Cost	**16,412,279**	16,553,016
Accumulated impairment	**(80,207)**	–
Net carrying amount	**16,332,072**	16,553,016
Net carrying amount:		
At 1 January	**16,332,072**	16,553,016
Acquisition of subsidiaries *(note 43)*	**198,157**	84,735
Impairment provided during the year	**(438,300)**	(81,118)
Exchange realignment	**670,077**	(224,561)
At 31 December	**16,762,006**	16,332,072
At 31 December:		
Cost	**17,295,096**	16,412,279
Accumulated impairment	**(533,090)**	(80,207)
Net carrying amount	**16,762,006**	16,332,072

17. GOODWILL *(Continued)*

Impairment testing of goodwill

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

	Notes	2020 HK$'000	2019 HK$'000
Piped gas operation	*(i)*	**7,302,379**	7,079,157
Brewery operation	*(ii)*	**329,360**	373,892
Solid waste treatment operation	*(iii)*	**9,073,187**	8,827,484
Others		**57,080**	51,539
		16,762,006	16,332,072

Notes:

(i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by an independent professionally qualified valuer based on a value-in-use calculation using cash flow projection which is based on a financial forecast approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projection is 10.6% (2019: 10.6%), which is determined by reference to the average rate for a similar industry and the business risk of the relevant business unit. A growth rate of 3% (2019: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision was considered necessary for the goodwill attributable to the piped gas operation as at 31 December 2020 (2019: Nil).

(ii) Goodwill attributable to the brewery operation mainly arose from the Group's investment in Yanjing Brewery and from the acquisition of certain of its subsidiaries in prior years.

The recoverable amount of the investment in Yanjing Brewery was determined based on the fair value less costs of disposal by reference to the market value of the shares of Yanjing Brewery held by the Group (Level 1 fair value measurement) as at 31 December 2020 and 2019.

The recoverable amount of each of the investments in other subsidiaries was determined by reference to a valuation prepared by an independent professionally qualified valuer on the value-in-use basis using cash flow projections of individual entities which are based on financial forecasts approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projection is ranged from 14.0% to 16.6% (2019: 11.8%), which is determined by reference to the average rate for a similar industry and the business risk of the relevant business unit. A growth rate of 3% (2019: 5.4%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, an impairment provision of HK$63,035,000 (2019: HK$81,118,000) against the goodwill attributable to the brewery operation arising from other subsidiaries was considered necessary which was charged to profit or loss for the year ended 31 December 2020.

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Notes: (Continued)

(iii) Goodwill attributable to the solid waste treatment operation mainly arose from the Group's investments in EEW and M+E Holding GmbH & Co. KG (the "EEW Group") in the Germany, Golden State Waste Management Corporation ("GSWM") and from the acquisition of certain subsidiaries in the Mainland China in prior years.

The recoverable amount of the solid waste treatment operation of the EEW Group has been determined by reference to a business valuation performed by an independent professionally qualified valuer on the value-in-use basis using a cash flow projection which is based on the financial forecast approved by the senior management covering a period of five years. The financial forecast of the EEW Group was based on, inter alia, the assumptions that the scale of the operations remains constant perpetually and the operations can generate cash flows perpetually from the related solid waste treatment projects. The discount rate applied to the cash flow projection is 5.9% (2019: 7.7%), which is determined by reference to the average rate for a similar industry and the business risk of the relevant business units. A growth rate of 1% (2019: 1%) is used for the perpetual period.

The recoverable amount of the solid waste treatment operation of GSWM has been determined on the value-in-use basis using a cash flow projection which is based on a financial forecast prepared by management covering the service concession periods of the relevant solid waste treatment projects. The financial forecast of GSWM was based on, inter alia, the assumptions that the scale of the operations remains constant perpetually and the operations can generate cash flows perpetually from the relevant solid waste treatment projects. The discount rate applied to the cash flow projection is 10.3% (2019: 11.19%), which is determined by reference to the average rate for a similar industry and the business risk of the relevant business units. A growth rate of 3% (2019: 3%) is used for the perpetual period.

The recoverable amount of each of the investments in other subsidiaries with solid waste treatment operation has been determined on the value-in-use basis using cash flow projections of individual entities which are based on financial forecasts approved by the senior management covering a period of ten years. The financial forecasts of individual entities were based on, inter alia, the assumption that the scale of the operations remains constant perpetually and the operations can generate cash flows perpetually from the relevant waste treatment projects. The discount rate applied to the cash flow projection is 10.6% (2019: 11.19%), which is determined by reference to the average rate for a similar industry and the business risk of the relevant business units. A growth rate of 3% (2019: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, an impairment provision of HK$375,265,000 (2019: Nil) against the goodwill attributable to the solid waste treatment operation in the Mainland China was considered necessary in response to an adverse change in a government policy regarding the renewable energy tariff subsidy, and was charged to profit or loss for the year ended 31 December 2020.

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in value-in-use calculations

The following describes each key assumption adopted by management in the preparation of the cash flow projections for the purpose of impairment testing of goodwill:

Piped gas operation

(i) Budgeted revenue

The budgeted revenue is based on the projected piped gas sales volume.

(ii) Budgeted gross margins

In respect of the relevant business units in the piped gas operation segment, the budgeted gross margins are based on the latest selling price of gas up to the date of the valuation report.

(iii) Discount rate

The discount rate used is before tax and reflects specific risks relating to the piped gas operation.

(iv) Business environment

– There will be no major changes in the existing political, legal and economic conditions in Mainland China and other locations in which the assessed entity carried on its business.

– The gas supply network has already been set up in most urban areas in Beijing where majority of the Group's piped gas operation is located. A high degree of unique features of the gas supply business and high construction and fixed costs in establishing alternative gas supply network in urban districts in Beijing create an exceptionally high entry barrier for other operators to enter into these regions. Therefore, in the opinion of the directors, the Group's piped gas operation can generate income perpetually.

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in value-in-use calculations (Continued)

Brewery operation

(i) Budgeted revenue
The budgeted revenue is based on the projected brewery products sales volume.

(ii) 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, having adjusted for expected market development.

(iii) Discount rate
The discount rate used is before tax and reflects specific risks relating to the brewery operation.

(iv) Business environment
There will be no major changes in the existing political, legal and economic conditions in Mainland China in which the assessed entity carried on its business.

Solid waste treatment operation

(i) Budgeted revenue
- The budgeted revenue is based on the projected solid waste treatment volume and the latest service fees of solid waste collection and selling prices of electricity, steam and heat up to the date of the forecast.
- During the year, there was a change in the government policy in relation to the renewable energy tariff subsidy, which the Group will no longer be entitled to the relevant subsidy under prescribed circumstances, including when the operation period of a solid waste incineration plant exceeds prescribed lifetime operation hours.

(ii) 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, having adjusted for expected efficiency improvements, and expected market development.

(iii) Discount rates
The discount rates used are before tax and reflect specific risks relating to the relevant units.

(iv) Business environment
There will be no major changes in the existing political, legal and economic conditions in Germany and Mainland China.

18. SERVICE CONCESSION ARRANGEMENTS

The Group operates a number of service concession arrangements with governmental authorities in Mainland China on a Build-Operate-Transfer (“BOT”) or a Transfer-Operate-Transfer (“TOT”) basis in respect of solid waste treatment operations. These service concession arrangements generally involve the Group as an operator (i) constructing the infrastructures for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the infrastructures at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 15 to 40 years (the “service concession periods”).

The Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to, where appropriate, use all the property, plant and equipment of the infrastructures, however, the relevant governmental authorities as grantors will control and regulate the scope of services the Group must provide with the infrastructures, and retain the beneficial entitlement to any residual interest in the infrastructures 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 Group and the relevant governmental authorities 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 infrastructures to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes.

The accounting policies in respect of the classification of the service concession arrangements between intangible assets (operating concessions) and financial assets (receivables under service concession arrangements) are set out under the heading of “Service concession arrangements” in note 2.4 to the financial statements.

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

The following is the summarised information of the Group's service concession arrangements:

Operating concessions

	Notes	**2020** **HK$'000** *(note (a))*	2019 HK$'000 *(note (a))*
At 1 January:			
Cost		**4,885,807**	3,961,393
Accumulated amortisation and impairment		**(1,101,979)**	(980,243)
Net carrying amount		**3,783,828**	2,981,150
Net carrying amount:			
At 1 January		**3,783,828**	2,981,150
Additions		**985,018**	1,237,298
Actual cost adjustment		**(19,333)**	(83,552)
Amortisation provided during the year	*8*	**(155,903)**	(131,863)
Impairment provided during the year	*20(b)*	**(596,645)**	(158,889)
Exchange realignment		**251,883**	(60,316)
At 31 December		**4,248,848**	3,783,828
At 31 December:			
Cost		**6,220,248**	4,885,807
Accumulated amortisation and impairment		**(1,971,400)**	(1,101,979)
Net carrying amount		**4,248,848**	3,783,828

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	Notes	2020 HK$'000	2019 HK$'000
Receivables under service concession arrangements attributable to solid waste treatment operations	(a), (b)	**3,077,283**	2,477,807
Portion classified as current assets		**(110,388)**	(97,552)
Non-current portion		**2,966,895**	2,380,255

Notes:

(a) The operating concessions of the Group are mainly attributable to solid waste treatment operations.

At 31 December 2020, the Group had 16 (2019: 12) service concession arrangements on solid waste treatment with certain governmental authorities in Mainland China, of which 4 (2019: 3) solid waste treatment operation concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) with an aggregate net carrying amount of HK$3,178,871,000 (2019: HK$2,131,394,000) were pledged to secure certain bank loans granted to the Group (note 34(c)).

(b) In respect of the Group's receivables under service concession arrangements, settlement of such receivables is closely monitored in order to minimise any credit risk associated with the receivables.

The Group provides for lifetime ECL for receivables under service concession arrangements, based on the credit rating of the debtors. Based on historical data and management's analysis, the loss on collection was not material and hence no provision for ECL against the receivables under service concession arrangements as at 31 December 2020 was considered necessary (2019: Nil).

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: (Continued)

(c) Details of contract assets attributable to service concession arrangements as at the end of the reporting period are as follows:

	31 December 2020 *HK$'000*	31 December 2019 *HK$'000*	1 January 2019 *HK$'000*
Contract assets included in:			
Operating concessions	**2,122,312**	1,286,977	437,902
Receivables under service concession arrangements	**689,926**	305,576	80,374
Total contract assets	**2,812,238**	1,592,553	518,276

Contract assets are initially recognised for revenue earned from the provision of construction services for solid waste incineration plants during the period of construction under service concession arrangements. Pursuant to the service concession agreements, the Group receives no payment from grantors during the construction period and receives service fees when relevant solid waste collection service is 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. The Group's trading terms and credit policy with customers are disclosed in note 26 to the financial statements.

The increase in contract assets as at 31 December 2020 was the result of the increase in ongoing service concession arrangements at initial construction stage which caused more unbilled amounts.

19. OTHER INTANGIBLE ASSETS

	Notes	Customer contracts HK$'000	Operating concessions HK$'000	Patents HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2020						
At 1 January 2020:						
Cost		3,533,422	419,322	51,051	604,797	4,608,592
Accumulated amortisation		(816,927)	(34,977)	(8,880)	(374,049)	(1,234,833)
Net carrying amount		2,716,495	384,345	42,171	230,748	3,373,759
Net carrying amount:						
At 1 January 2020		2,716,495	384,345	42,171	230,748	3,373,759
Acquisition of subsidiaries	43	–	–	–	748	748
Additions		–	–	–	156,571	156,571
Amortisation provided during the year	8	(166,670)	(12,904)	(1,992)	(156,000)	(337,566)
Impairment provided during the year	20	–	(55,123)	–	–	(55,123)
Exchange realignment		217,279	21,862	807	15,765	255,713
At 31 December 2020		2,767,104	338,180	40,986	247,832	3,394,102
At 31 December 2020:						
Cost		3,828,652	439,951	51,051	807,028	5,126,682
Accumulated amortisation and impairment		(1,061,548)	(101,771)	(10,065)	(559,196)	(1,732,580)
Net carrying amount		2,767,104	338,180	40,986	247,832	3,394,102

19. OTHER INTANGIBLE ASSETS *(Continued)*

	Notes	Customer contracts HK$'000	Operating concessions HK$'000	Patents HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2019						
At 1 January 2019:						
Cost		3,633,162	72,765	51,051	542,145	4,299,123
Accumulated amortisation		(674,022)	(20,448)	(6,643)	(325,814)	(1,026,927)
Net carrying amount		2,959,140	52,317	44,408	216,331	3,272,196
Net carrying amount:						
At 1 January 2019		2,959,140	52,317	44,408	216,331	3,272,196
Acquisition of subsidiaries	43	–	358,646	–	–	358,646
Additions		–	–	–	72,224	72,224
Amortisation provided during the year	8	(166,114)	(13,050)	(2,002)	(54,268)	(235,434)
Exchange realignment		(76,531)	(13,568)	(235)	(3,539)	(93,873)
At 31 December 2019		2,716,495	384,345	42,171	230,748	3,373,759
At 31 December 2019:						
Cost		3,533,422	419,322	51,051	604,797	4,608,592
Accumulated amortisation		(816,927)	(34,977)	(8,880)	(374,049)	(1,234,833)
Net carrying amount		2,716,495	384,345	42,171	230,748	3,373,759

20. IMPAIRMENT TESTING OF NON-CURRENT ASSETS OF CERTAIN OPERATIONS

Certain of the Group's brewery plants have been loss-making for some time and, during the year, there was an adverse change in the government policy in connection with the Group's solid waste treatment operation in Mainland China and the operations of a solid waste incineration plant in Mainland China continued to be suspended under a local government's instruction. These events constituted impairment indications of the non-current assets attributable to the relevant cash-generating units, including property, plant and equipment, right-of-use assets, operating concessions and other intangible assets. Accordingly, the Group carried out an impairment testing of these assets as at 31 December 2020 in accordance with HKAS 36 *Impairment of Assets*, which is summarised as follows:

(a) Brewery operation

In respect of the loss-making brewery plants, the directors had estimated the recoverable amounts (which is the fair value less costs of disposal ("FV")) of their non-current assets (the "Brewery Assets") for the purpose of impairment testing.

In this connection, the Company had engaged CHFT Advisory and Appraisal Limited, an independent professional valuer, to assess the FV of the relevant CGUs of the brewery operation to derive the FV of the Brewery Assets. The FV was determined by reference to valuations performed by the valuer using the market approach, by reference to the prices at which an orderly transaction to sell these Brewery Assets would take place. The fair value measurement used significant unobservable inputs (Level 3 of the fair value hierarchy).

Below is a summary of the valuation techniques used and the key inputs used in assessing the FV of the CGUs in brewery operation during the year:

	Valuation techniques	**Significant unobservable inputs**	**Range or weighted average**
Property, plant and equipment and right-of-use assets	Market approach	Selling land unit rate (per square metre)	RMB150 to RMB7,463
		Selling building unit rate (per square metre)	RMB2,435 to RMB12,581

20. IMPAIRMENT TESTING OF NON-CURRENT ASSETS OF CERTAIN OPERATIONS *(Continued)*

(a) Brewery operation *(Continued)*

Based on the FV assessment of the CGUs of the brewery operation, the directors are of the opinion that impairment losses of HK$50,850,000 in total against the Brewery Assets were considered necessary which were recognised as "Other operating expenses, net" in profit or loss during the year and were allocated to non-current assets based on their relative carrying amounts amongst the Brewery Assets as follows:

	HK$'000
Property, plant and equipment	38,391
Right-of-use assets	12,459
Total impairment losses recognised in profit or loss	50,850

(b) Solid waste treatment operation

Year ended 31 December 2020

During the year ended 31 December 2020, there was a change in government policy in relation to the renewable energy tariff subsidy, which the Group will be no longer entitled to the relevant subsidies under certain circumstances, including when the operation period of a solid waste incineration plant has exceeded prescribed lifetime operation hours, and therefore the Group's future operating cash flows from the solid waste treatment operation might be adversely affected.

In addition, a solid waste incineration plant of the Group in Taian province, the PRC (the "Taian Plant") has been suspended from operations under a local government's instruction since 2019 in relation to the new environmental protection and emission measures. Based on the latest understanding between the Group and the local government authority, it is unlikely for the Taian Plant to resume normal operation in the near future and therefore the future operating cash flows from the Taian Plant is adversely affected.

In view of the afore-mentioned adverse change in the government policy during the year and the suspension of the Taian Plant, the directors had estimated the recoverable amounts (which is the value-in-use ("VIU")) of the non-current assets of the solid waste treatment operation (the "Solid Waste Treatment Assets") for the purpose of impairment testing.

20. IMPAIRMENT TESTING OF NON-CURRENT ASSETS OF CERTAIN OPERATIONS *(Continued)*

(b) Solid waste treatment operation *(Continued)*

Year ended 31 December 2020 (Continued)

In this connection, the Company had engaged CHFT Advisory and Appraisal Limited, an independent professional valuer, to assess the VIU of the relevant CGUs of the solid waste treatment operation to derive the VIU of the Solid Waste Treatment Assets using the discounted cash flow method. In assessing the VIU of each of the CGUs, the future cash flows of the solid waste treatment operation, which cover periods to the concession/operation end date of the respective plants, are discounted to present values using a pre-tax discount rate that reflects current assessments of the time value of money and the risks specific to such business. Parameters used in the projected cash flows included but not limited to waste treatment fees, volumes of wastes handled, electricity prices, volumes of electricity generated, plant operation cost and other expenses, capital expenditure, the operation plan, revenue growth rates, expected inflation rates and the discount rate, which reflected the current conditions of the market and estimated trend in the future. The fair value measurement used significant unobservable inputs (Level 3 of the fair value hierarchy).

Below is a summary of the valuation techniques used and the key inputs used in assessing the VIU of the CGUs in solid waste treatment operation during the year:

	Valuation techniques	Significant unobservable inputs	Range or weighted average
Property, plant and equipment, right-of-use assets, operating concessions and other intangible assets	Discounted cash flow method	(i) Revenue growth rates (per annum)	3% to 20%
		(ii) Expected inflation rates in the PRC (per annum)	3%
		(iii) Pre-tax discount rate*	10.3% to 10.6%

* *The pre-tax discount rate was evaluated under the Capital Assets Pricing Model (the "CAPM"); the appropriate expected rate of return was the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of CGUs was expected to be affected by firm specific risk factors that are independent of the general market. The rates were arrived at the weighted average of the cost of equity and the cost of debt before tax of the respective CGUs.*

20. IMPAIRMENT TESTING OF NON-CURRENT ASSETS OF CERTAIN OPERATIONS *(Continued)*

(b) Solid waste treatment operation *(Continued)*

Year ended 31 December 2020 (Continued)

Based on the VIU assessment of the CGUs of the solid waste treatment operation, the directors are of the opinion that impairment losses of HK$719 million in total against the Solid Waste Treatment Assets were considered necessary which were recognised as "Other operating expenses, net" in profit or loss during the year and were allocated to non-current assets based on their relative carrying amounts amongst the Solid Waste Treatment Assets as follows:

	HK$'000
Property, plant and equipment	54,550
Right-of-use assets	12,725
Operating concessions	596,645
Other intangible assets	55,123
Total impairment losses recognised in profit or loss	719,043

Year ended 31 December 2019

During the year ended 31 December 2019, an impairment loss of HK$158,889,000 was recognised against operating concessions related to (i) a solid waste incineration plant in Changde, the PRC which was forced to suspend from operations under the instruction of the local government due to the failure to meet relevant PRC environmental and air pollutant emission standards; and (ii) another solid waste incineration plant in Ha'erbin, the PRC, which has been underperforming due to extreme cold weather in winter. Impairment assessments had been performed with respect to the operating concessions of the two solid waste incineration plants as at 31 December 2019 and their recoverable amounts were determined based on (i) the latest negotiation of the compensation plan which has not been finalised with the local government as at the date of approval of these financial statements; and (ii) a valuation performed by an independent professional valuer on the value-in-use basis using cash flow projection based on a financial forecast approved by the senior management and discounted at a pre-tax discount rate of 11.19%.

21. INVESTMENTS IN JOINT VENTURES

	2020 HK$'000	2019 HK$'000
Share of net assets	**392,516**	327,691

All joint ventures of the Group are not individually material.

22. INVESTMENTS IN ASSOCIATES

	Notes	2020 HK$'000	2019 HK$'000
Share of net assets	(b), (c)	**50,322,133**	46,575,985
Goodwill on acquisition, net of impairment	(b), (c)	**10,660,016**	10,668,850
		60,982,149	57,244,835

Notes:

(a) Particulars of the material associates, which are all indirectly held by the Company, are as follows:

			Percentage of		
Company name	**Place of incorporation/ registration and business**	**Particulars of issued capital held**	**Ownership interest attributable to the Group**	**Voting power**	**Profit sharing**
中石油北京天然氣管道有限公司 (“PetroChina Beijing Gas”)	PRC/Mainland China	Paid-up capital	40	40	40
BE Water[π]	Bermuda	Ordinary shares	41.13	41.13	41.13
China Gas Holdings Limited (“China Gas”)[Ω]	Bermuda	Ordinary shares	23.74	23.74	23.74
PJSC Verkhnechonskneftegaz (“VCNG”)	Russia	Ordinary shares	20	20	20

22. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(a) *(Continued)*

π *BE Water is a company listed on the Main Board of the Hong Kong Stock Exchange. The market value of the shares of BE Water held by the Group as at 31 December 2020 and the date of approval of these financial statements, based on its then quoted market prices, amounted to approximately HK$12.9 billion (2019: HK$16.2 billion) and HK$12.2 billion (2019: HK$12.5 billion), respectively.*

During the year ended 31 December 2019, the Group's equity interest in BE Water was diluted from 42.43% to 41.13% upon the (i) exercise of 9,810,000 share options by certain option holders of BE Water and (ii) placing of 598,397,150 new ordinary shares, resulting in a total gain on deemed disposals of HK$187,453,000 recognised by the Group in profit or loss.

Ω *China Gas is a company listed on the Main Board of the Hong Kong Stock Exchange. The market value of the shares of China Gas held by the Group as at 31 December 2020 and the date of approval of these financial statements, based on its then quoted market prices, amounted to approximately HK$38.1 billion (2019: HK$36.1 billion) and HK$39.4 billion (2019: HK$33.4 billion), respectively.*

During the year ended 31 December 2020, the Group's equity interest in China Gas increased from 23.72% to 23.74% after the repurchase of certain of its shares from the market by China Gas.

During the year ended 31 December 2019, the Group's equity interest in China Gas decreased from 24.36% to 23.72% upon the exercise of 147,094,000 shares options by certain option holders of China Gas, resulting in a gain on deemed disposal of HK$150,662,000 recognised by the Group in profit or loss.

(b) Material associates disclosures

The Group's associates are accounted for using the equity method and the principal activities of the four material associates are as follows:

(i) PetroChina Beijing Gas is engaged in the provision of natural gas transmission services in Mainland China.

(ii) BE Water and its subsidiaries are engaged in the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, sewage treatment, water treatment and distribution, and the provision of consultancy services and the licensing of technical know-how that is related to sewage treatment in Mainland China and certain overseas countries.

(iii) China Gas and its subsidiaries are principally engaged in the distribution and sale of piped natural gas, liquefied petroleum gas, and the provision of gas connection service in Mainland China.

(iv) VCNG is principally engaged in oil, gas and gas condensate fields exploration, production and sale in Russia.

22. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

The following table illustrates the summarised financial information of the above four material associates which has been adjusted to reflect the fair values of identifiable assets and liabilities at the respective dates of acquisition by the Group, and reconciled to the carrying amount in the consolidated financial statements:

	PetroChina Beijing Gas		BE Water		China Gas*		VCNG	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current assets	**865,974**	1,689,376	**41,447,441**	35,251,473	**44,235,262**	40,875,758	**4,699,128**	6,496,258
Non-current assets	**46,814,150**	46,250,119	**132,953,680**	115,909,453	**80,032,909**	70,261,885	**38,514,200**	41,611,839
Current liabilities	**(6,983,419)**	(7,302,426)	**(51,922,001)**	(48,977,911)	**(46,840,154)**	(46,614,899)	**(1,987,598)**	(2,899,838)
Non-current liabilities	**(4,761,905)**	(6,179,775)	**(65,355,115)**	(55,651,839)	**(26,328,489)**	(23,580,827)	**(7,037,795)**	(7,508,800)
Net assets	**35,934,800**	34,457,294	**57,124,005**	46,531,176	**51,099,528**	40,941,917	**34,187,935**	37,699,459
Less: Non-controlling interests	**–**	–	**(19,780,193)**	(15,982,726)	**(7,214,345)**	(5,723,259)	**–**	–
Net assets attributable to shareholders of the associates	**35,934,800**	34,457,294	**37,343,812**	30,548,450	**43,885,183**	35,218,658	**34,187,935**	37,699,459
Reconciliation to the Group's investments in the associates								
Proportion of the Group's ownership	**40%**	40%	**41.13%**	41.13%	**23.74%**	23.72%	**20%**	20%
Group's share of net assets of the associates, excluding goodwill recognised by the Group	**14,373,920**	13,782,918	**15,359,510**	12,564,578	**10,418,342**	8,353,866	**6,837,587**	7,539,892
Goodwill on acquisition recognised by the Group	**–**	–	**443,586**	443,586	**8,040,362**	8,040,362	**1,730,028**	1,738,957
Other reconciling items	**–**	–	**(29,179)**	(29,179)	**–**	–	**–**	–
Carrying amount of the investments	**14,373,920**	13,782,918	**15,773,917**	12,978,985	**18,458,704**	16,394,228	**8,567,615**	9,278,849
Other disclosures								
Revenue	**10,006,223**	11,410,349	**25,360,587**	28,192,464	**58,779,168**	58,434,366	**14,205,715**	22,301,962
Profit for the year	**3,407,655**	4,638,461	**5,240,541**	5,842,589	**10,465,331**	9,820,313	**3,529,169**	6,060,533
Profit for the year attributable to shareholders of the associates	**3,407,655**	4,638,461	**4,183,466**	4,925,718	**9,368,398**	8,908,260	**3,529,169**	6,060,533
Other comprehensive income/(loss) for the year	**–**	–	**1,841,893**	(908,785)	**2,353,079**	(1,923,382)	**–**	–
Other comprehensive income/(loss) for the year attributable to shareholders of the associates	**–**	–	**3,498,232**	(748,365)	**2,072,070**	(1,686,347)	**–**	–
Share of the associates' profit for the year	**1,363,062**	1,855,384	**1,720,660**	2,026,934	**2,199,161**	2,117,109	**705,834**	1,212,107
Share of the associates' other comprehensive income/(loss) for the year	**–**	–	**1,438,823**	(307,952)	**491,723**	(386,902)	**–**	–
Dividend received/receivable by the Group	**1,650,319**	1,440,250	**667,718**	783,031	**618,945**	544,572	**810,626**	980,460

22. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

* *The statutory financial year end date of China Gas is 31 March, which is not coterminous with that of the Company's financial year end date. The financial statements for the twelve months ended 30 September 2020 are the latest financial statements of China Gas available for equity accounting by the Group. Accordingly, the financial period end of the financial statements of China Gas for which the equity accounting method was used for the year ended 31 December 2020 is as of 30 September 2020 or for the twelve months ended 30 September 2020.*

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

	2020	2019
	HK$'000	*HK$'000*
Share of the associates' loss for the year	**(1,030,318)**	(229,116)
Share of the associates' other comprehensive loss for the year	**(39,158)**	–
Share of net assets of the associates	**3,361,953**	4,363,910
Goodwill on acquisition recognised by the Group, net of impairment	**446,040**	445,945

(d) Subsequent to the reporting period, on 17 January 2021, Blue Sky, an associate of the Group, publicly announced that its management has identified a number of suspicious transactions and questionable assets in its group (the "Incident") and following this public announcement, the shares of Blue Sky have been suspended from trading since then. The directors of the Company considered that the Incident has already existed as at 31 December 2020 and therefore the Group's interest in Blue Sky might be adversely affected.

In view of the this, the directors of the Company had estimated the recoverable amount (which is the FV) of the Group's interest in Blue Sky for the purpose of impairment testing. The FV was measured based on the unadjusted quoted price in the active market (Level 1 of the fair value hierarchy) which was the share price of Blue Sky as at 31 December 2020. Based on the FV assessment, the directors of the Company are of the opinion that a loss allowance of HK$1,124 million against the Group's interest in Blue Sky was considered necessary which was recognised in the "Share of profits and losses of associates" line item on the face of the consolidated statement of profit or loss for the year ended 31 December 2020.

23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 HK$'000	2019 HK$'000
Listed equity investments, at fair value		
– Beijing Jingneng Clean Energy Co., Limited	**500,289**	267,871
– Biosino Bio-Technology and Science Incorporation	**43,065**	43,065
– CNPC Capital Company Limited	**1,986,124**	2,403,413
	2,529,478	2,714,349
Unlisted equity investments, at fair value	**703,639**	569,868
	3,233,117	3,284,217

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

As at the date of approval of these financial statements, the fair value of the above listed equity investments of the Group, based on their then quoted market prices, amounted to approximately HK$2.1 billion.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 HK$'000	2019 HK$'000
Unlisted fund investment	**2,400,086**	2,265,249
Principal-protected investment deposits	**238,095**	–
	2,638,181	2,265,249

These financial assets were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

25. INVENTORIES

	2020 HK$'000	2019 HK$'000
Raw materials	4,129,795	3,947,568
Work in progress	431,806	649,183
Finished goods	582,359	592,437
	5,143,960	5,189,188

26. TRADE RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables	7,040,022	6,221,099
Impairment *(note (d))*	(269,157)	(191,649)
	6,770,865	6,029,450

Notes:

(a) Included in the Group's trade receivables as at 31 December 2020 were aggregate amounts of HK$45,425,000 (2019: HK$36,420,000) and HK$111,519,000 (2019: HK$74,983,000) due from fellow subsidiaries and a joint venture of the Group, arising from transactions carried out in the ordinary course of business of the Group, respectively. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the Group to its major customers.

(b) At 31 December 2020, trade receivables amounting to HK$56,937,000 (2019: HK$21,431,000) were pledged to secure certain bank loans (note 34(c)).

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(c) Various group companies have different credit policies, depending on the requirements of their markets and the businesses which they operate. Ageing analysis of trade receivables is prepared and closely monitored in order to minimise any credit risk associated with the receivables. The Group does not hold any collateral or other credit enhancement over its trade receivables.

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

	2020 *HK$'000*	2019 *HK$'000*
Billed:		
Within one year	**3,721,305**	3,987,212
One to two years	**176,892**	63,304
Two to three years	**56,807**	26,112
Over three years	**13,066**	67,730
	3,968,070	4,144,358
Unbilled*	**2,802,795**	1,885,092
	6,770,865	6,029,450

* *The unbilled balance was attributable to the sale of natural gas near the year end date and such sale will be billed in the next meter reading date.*

(d) The movements in the impairment of trade receivables during the year are as follows:

	2020 *HK$'000*	2019 *HK$'000*
At 1 January	**191,649**	258,787
Impairment losses recognised/(reversed) during the year, net *(note 8)*	**55,541**	(56,825)
Amount written off as uncollectible	**–**	(8,181)
Exchange realignment	**21,967**	(2,132)
At 31 December	**269,157**	191,649

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on invoice dates for groupings of various customer segments with similar loss patterns. 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.

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(d) *(Continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

At 31 December 2020

		Billed				
	Unbilled	**Within 1 year**	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Expected credit loss rate	**0.30%**	**0.45%**	**17.69%**	**21.39%**	**95.43%**	**3.82%**
Gross carrying amount *(HK$'000)*	**2,802,795**	**3,776,394**	**186,503**	**68,780**	**205,550**	**7,040,022**
Expected credit losses *(HK$'000)*	**8,362**	**16,951**	**32,987**	**14,710**	**196,147**	**269,157**

At 31 December 2019

		Billed				
	Unbilled	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	1.18%	1.18%	8.28%	26.26%	62.45%	3.08%
Gross carrying amount *(HK$'000)*	1,885,092	4,077,779	54,378	28,833	175,017	6,221,099
Expected credit losses *(HK$'000)*	22,245	48,025	4,505	7,572	109,302	191,649

27. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	2020 HK$'000	2019 HK$'000
Prepayments		**2,801,309**	1,408,855
Deposits and other receivables	(a)	**1,613,158**	1,373,289
Due from holding companies	28	**1,630,744**	1,550,564
Due from fellow subsidiaries	28	**125,000**	117,978
Due from a joint venture	28	**93,333**	88,090
Due from associates	28	**60,659**	30,565
Due from related parties	28	**134,440**	104,332
Contract assets	(b)	**602,707**	319,061
		7,061,350	4,992,734
Impairment allowance	(c)	**(428,246)**	(415,967)
		6,633,104	4,576,767
Portion classified as current assets		**(4,743,928)**	(3,638,798)
Non-current portion		**1,889,176**	937,969

Notes:

(a) The Group's deposits and other receivables as at 31 December 2020 and 2019 include, inter alia, the following:

(i) certain deposits of HK$118,002,000 (2019: HK$131,377,000) in total paid for the construction or purchase of buildings, gas pipelines, equipment and machinery, which were classified as non-current assets; and

(ii) a deposit of EUR4 million (equivalent to HK$38 million) (2019: EUR3 million (equivalent to HK$24 million)) paid to a bank for securing certain bank facilities granted. Such deposit will be refunded upon the expiry of the banking facilities (note 34(c)).

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

Notes: (Continued)

(b) Contract assets arise from solid waste treatment service contracts and are initially recognised for revenue earned from the provision of construction services as the receipt of consideration is conditional on successful completion of the construction services. The increases in contract assets in 2020 and 2019 were the result of the increase in the provision of construction services close to the end of each of the years.

The expected timing of recovery or settlement of the Group's contract assets as at the end of the reporting period is as follows:

	31 December 2020 *HK$'000*	31 December 2019 *HK$'000*	1 January 2019 *HK$'000*
Within one year	**599,919**	308,962	161,187
After one year	**2,788**	10,099	10,255
Total contract assets	**602,707**	319,061	171,442

(c) In respect of impairment consideration of the Group's other receivables and contract assets, an impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. At 31 December 2020, the probability of default applied for other receivables ranged from 0.05% to 0.07% (2019: 0.05% to 0.10%) and the loss given default was estimated to range from 57.68% to 64.87% (2019: 57.10% to 69.60%), whereas the probability of default applied for contract assets ranged from 0.05% to 0.07% (2019: 0.05% to 0.10%) and the loss given default rate was estimated to range from 57.68% to 64.87% (2019: 57.10% to 69.60%).

In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

The movements in the impairment of other receivables and contract assets during the year are as follows:

	2020 *HK$'000*	2019 *HK$'000*
At 1 January	**415,967**	214,389
Impairment losses recognised during the year, net *(note 8)*	**1,422**	205,253
Exchange realignment	**10,857**	(3,675)
At 31 December	**428,246**	415,967

Other than those mentioned above, the financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. At 31 December 2020 and 2019, the loss allowance was assessed to be minimal.

28. BALANCES WITH HOLDING COMPANIES/FELLOW SUBSIDIARIES/A JOINT VENTURE/ ASSOCIATES/RELATED PARTIES

The balances with holding companies, fellow subsidiaries, a joint venture, associates and related parties are unsecured, interest-free and repayable on demand, except for:

(i) an aggregate amount of RMB78,400,000 (equivalent to HK$93,333,000) (2019: RMB78,400,000 (equivalent to HK$88,090,000)) due from a joint venture, which is unsecured, bears interest at the rate of 3.92% (2019: 3.92%) per annum and is repayable within one year. Interest income of RMB2,950,000 (equivalent to HK$3,314,000) (2019: RMB2,953,000 (equivalent to HK$3,355,000)) was recognised in profit or loss in respect of this balance. The joint venture had been loss-making and in view of the deteriorating operating results of the joint venture, the Group provided for an impairment of the amount due from the joint venture of RMB78,400,000 (equivalent to HK$93,333,000 (2019: HK$88,090,000)) during the year ended 31 December 2019; and

(ii) interest-bearing loans of HK$1,032 million (2019: HK$907 million) advanced from an associate, further details of which are set out in note 34(b)(ii) to the financial statements.

The trade balances with fellow subsidiaries and a joint venture of the Group included in trade receivables and trade and bills payables are disclosed in notes 26(a) and 40 to the financial statements, respectively.

29. RESTRICTED CASH AND PLEDGED DEPOSITS

	Notes	**2020 HK$'000**	2019 HK$'000
Restricted cash	*(a)*	**28,526**	26,923
Pledged deposits	*(b)*	**8,353**	9,778
Restricted cash and pledged deposits		**36,879**	36,701

Notes:

(a) Restricted cash of the Group represented the proceeds of a government surcharge of HK$28,526,000 (2019: HK$26,923,000) collected prior to 2003 by Beijing Gas, a wholly-owned subsidiary indirectly held by the Company, from piped gas customers on behalf of the Beijing Municipal Commission of Development and Reform (the "BMCDR"). The proceeds held on behalf of the BMCDR, which are deposited in a specific bank account of the Group, together with any interest earned therefrom, are repayable to the BMCDR (note 41(a)(i)).

(b) Bank balances of HK$8,353,000 (2019: HK$9,778,000) as at 31 December 2020 were pledged to secure certain bank loans granted to the Group (note 34(c)).

30. CASH AND CASH EQUIVALENTS

	2020 *HK$'000*	2019 *HK$'000*
Cash and bank balances other than time deposits	**18,508,289**	10,102,694
Saving deposits placed in a financial institution (an associate of the Group) *(note 46(a)(x))*	**209,085**	480,695
Time deposits:		
Placed in banks	**8,421,862**	9,200,602
Placed in a financial institution (an associate of the Group) *(note 46(a)(x))*	**2,020,071**	2,411,631
	29,159,307	22,195,622
Less: Restricted cash and pledged deposits *(note 29)*	**(36,879)**	(36,701)
Cash and cash equivalents	**29,122,428**	22,158,921

Notes:

(a) At 31 December 2020, the cash and deposit balances of the Group denominated in RMB amounted to HK$24.9 billion (2019: HK$17.6 billion). 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 and a financial institution earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and two years (2019: one day and two years) depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The saving and time deposits are deposited with creditworthy banks and a financial institution with no recent history of default.

31. SHARE CAPITAL

	2020	2019
	HK$'000	*HK$'000*
Issued and fully paid:		
1,262,053,268 ordinary shares	**30,401,883**	30,401,883

32. SHARE OPTION SCHEME OF A SUBSIDIARY

BEEGL, a subsidiary of the Group, operates a share option scheme (the "BEEGL Scheme") for the purpose of (i) attracting and retaining the best quality personnel for the development of its business; (ii) providing incentives and rewards to eligible participants; and (iii) promoting the long term financial success of BEEGL by aligning the interests of grantees to its shareholders. Eligible participants of the BEEGL Scheme include (i) any person employed by BEEGL or a subsidiary of BEEGL and any person who is an officer or director (whether executive or non-executive) of BEEGL or any subsidiary of BEEGL; (ii) any non-executive director and any independent non-executive director, or officer of any member of BEEGL and its subsidiaries (collectively referred to as the "BEEGL Group"); and (iii) any consultant of any member of the BEEGL Group. The BEEGL 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 BEEGL Scheme is an amount equivalent, upon their exercise, to 10% of the number of ordinary shares of BEEGL in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the BEEGL Scheme within any 12-month period is limited to 1% of the ordinary shares of BEEGL 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 BEEGL, or to any of their associates, are subject to approval in advance by its independent non-executive directors. In addition, any share options granted to an independent non-executive director of BEEGL, or to any of their associates, in excess of 0.1% of the ordinary shares of BEEGL in issue at any time or with an aggregate value (based on the price of the BEEGL'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 of BEEGL.

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 BEEGL, 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.

32. SHARE OPTION SCHEME OF A SUBSIDIARY *(Continued)*

The exercise price of share options is determinable by the directors of BEEGL, but may not be less than the higher of (i) the closing price of BEEGL's shares on the Hong Kong Stock Exchange on the date of offer of the share options; and (ii) the average closing price of BEEGL's shares on the Hong Kong 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 of BEEGL. The share options are non-transferrable and lapse when they expire or within three months from the date on which the grantee ceases to be an employee of the BEEGL Group.

There was no movement in the share options granted under the BEEGL Scheme during the years ended 31 December 2020 and 2019. At the end of the reporting period and the date of approval of these financial statements, BEEGL had 37,620,000 (2019: 37,620,000) share options outstanding under the BEEGL Scheme, which represented approximately 2.5% of BEEGL's ordinary shares in issue at those dates. The exercise price of the share options is HK$1.25 per share, which is subject to adjustment in the case of rights or bonus issues, or other similar changes in BEEGL's share capital. The share options are exercisable during the period from 21 June 2011 to 20 June 2021. The exercise in full of the outstanding share options would, under the present capital structure of BEEGL, result in the issue of 37,620,000 additional ordinary shares of BEEGL and additional share capital of BEEGL of HK$67,814,000 (before issue expenses).

33. RESERVES

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) The capital reserve of the Group includes (i) gains or losses on acquisition of the non-controlling interests of existing subsidiaries and/or disposal of subsidiaries without a loss of control; and (ii) share of the share option reserves of associates.

(c) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's PRC subsidiaries, joint ventures and associates. None of the Group's PRC reserve funds as at 31 December 2020 were distributable in the form of cash dividends.

34. BANK AND OTHER BORROWINGS

	2020 HK$'000	2019 HK$'000
Bank loans:		
Secured	**1,832,608**	799,800
Unsecured	**31,574,023**	29,355,321
	33,406,631	30,155,121
Other loans:		
Unsecured	**3,761,990**	2,971,130
Total bank and other borrowings	**37,168,621**	33,126,251
Analysed into:		
Bank loans repayable:		
Within one year	**15,007,607**	7,058,107
In the second year	**7,632,840**	10,071,475
In the third to fifth years, inclusive	**9,473,925**	11,649,619
Beyond five years	**1,292,259**	1,375,920
	33,406,631	30,155,121
Other loans repayable:		
Within one year	**390,458**	302,922
In the second year	**322,126**	300,913
In the third to fifth years, inclusive	**1,160,906**	1,010,646
Beyond five years	**1,888,500**	1,356,649
	3,761,990	2,971,130
Total bank and other borrowings	**37,168,621**	33,126,251
Portion classified as current liabilities	**(15,398,065)**	(7,361,029)
Non-current portion	**21,770,556**	25,765,222

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

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

	2020	2019
	HK$'000	*HK$'000*
HK$	**19,922,712**	18,459,058
RMB	**8,706,092**	5,742,248
US$	**2,259,003**	2,745,555
EUR	**6,280,814**	6,179,390
	37,168,621	33,126,251

(b) The Group's bank and other borrowings as at 31 December 2020 included the following:

(i) amortised cost of an interest-free loan of HK$138,006,000 (2019: HK$130,253,000) granted by a non-controlling equity holder of a subsidiary;

(ii) loans of HK$1,032 million (2019: HK$907 million) in total advanced from an associate, which bear interest at rates ranging from 3-month HIBOR plus 1.05% to 5.32% per annum. Interest expenses of HK$43,259,000 (2019: HK$38,627,000) were recognised in profit or loss during the year in respect of these loans (note 46(a)(x)); and

(iii) bank and other loans with an aggregate carrying amount of HK$2,260,961,000 (2019: HK$1,969,095,000) advanced from two overseas governments and Asian Infrastructure Investment Bank which were obtained to finance certain of the Group's pipeline construction projects and a liquefied natural gas emergency reserve project. Except for an interest-free loan of HK$6,359,000 (2019: HK$6,951,000), these loans mainly bear interest at rates ranging from 2% to LIBOR +1.7% (2019: 2% to 6.3%) per annum.

(c) The Group's secured bank and other loans are secured by the following assets:

		Carrying amount	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
Building	*14(a)*	**282,873**	45,322
Operating concessions	*18(a)*	**2,150,308**	1,914,871
Receivables under service concession arrangements	*18(a)*	**1,028,563**	216,523
Trade receivables	*26(b)*	**56,937**	21,431
Deposit paid to a bank	*27(a)(ii)*	**37,880**	23,571
Bank balances	*29(b)*	**8,353**	9,778

In addition to the pledge of assets given above, bank loans with carrying amounts of HK$2,414,850,000 (2019: HK$2,575,350,000) as at 31 December 2020 are guaranteed by the Company.

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(d) The loan agreements in respect of certain bank loans outstanding as at 31 December 2020 include certain conditions imposing specific performance obligations on the Company's holding companies, among which the following events would constitute events of default on the loan facilities:

(i) if Beijing Enterprises Group does not or ceases to own, directly or indirectly, at least 40% or 50% of the beneficiary interest of the Company; and

(ii) if Beijing Enterprises Group ceases to be controlled and supervised by the Beijing Municipal Government.

A summary of these bank loans as at 31 December 2020 is as follows:

	Year of drawdown	Contractual interest rate per annum	Final maturity
Five-year HK$3 billion term loan	2016	1-month HIBOR+0.68%	22 November 2021
Five-year HK$1.94 billion term loan	2016	1-month HIBOR+1.06%	7 December 2021
Five-year HK$4 billion term loan	2016	1-month HIBOR+0.88%	24 June 2021
Five-year US$290 million syndicated loan	2017	1-month LIBOR+0.825%	15 May 2022
Five-year HK$4 billion term loan	2017	1-month HIBOR+0.62%	17 July 2022
Five-year EUR350 million term loan	2018	1-month EURIBOR+1.09%	17 July 2023
US$50 million revolving loan	2019	1-month HIBOR+0.95%	N/A
US$60 million revolving loan	2019	1-month HIBOR/LIBOR+0.8%	N/A
EUR80 million revolving loan	2019	1-month HIBOR+0.7%	N/A
HK$700 million revolving loan	2019	1-month HIBOR+0.8%	N/A
HK$1,000 million revolving loan	2020	1-month HIBOR+1%	N/A
HK$1,000 million revolving loan	2020	1-month HIBOR+1%	N/A
Five-year HK$4 billion term loan	2020	1-month HIBOR+1.1%	27 November 2025

To the best knowledge of the directors, none of the above default events took place during the year and as at the date of approval of these financial statements.

35. GUARANTEED BONDS AND NOTES

A summary of the guaranteed bonds and notes issued by the Group and outstanding as at 31 December 2020 is as follows:

	Principal at original currency	Contractual interest rate per annum	Maturity	2020	2019
	'million			***HK$'000***	*HK$'000*
2011 First Senior Notes	**US$600**	**5%**	**2021**	**4,611,320**	4,629,044
2011 Second Senior Notes	**US$400**	**6.375%**	**2041**	**3,074,208**	3,086,024
2012 Senior Notes	**US$800**	**4.5%**	**2022**	**6,170,101**	6,194,234
2015 EUR Bonds	**EUR500**	**1.435%**	**2020**	**–**	4,373,180
2015 US$ Bonds	**US$200**	**4.99%**	**2040**	**1,507,778**	1,514,275
2017 EUR Bonds	**EUR800**	**1.3%**	**2022**	**7,561,416**	6,963,249
2017 Guaranteed Notes	**US$500**	**2.75%**	**2022**	**3,864,495**	3,881,236
2020 Green Bonds	**EUR500**	**1%**	**2025**	**4,683,085**	–
				31,472,403	30,641,242
Portion classified as current liabilities				**(4,611,320)**	(4,373,180)
Non-current portion				**26,861,083**	26,268,062

Except for the 2017 Guaranteed Notes which are guaranteed by Beijing Gas, all the above guaranteed bonds and notes are guaranteed by the Company.

Further details of the guaranteed bonds and notes are set out in the Company's announcements dated 6 May 2011, 19 April 2012, 30 April 2015, 1 December 2015, 13 April 2017 and 17 September 2020, respectively.

The fair value of the Group's guaranteed bonds and notes as at 31 December 2020 was approximately HK$33.8 billion (2019: HK$32.6 billion), based on price quotations from financial institutions at the reporting date.

36. DEFINED BENEFIT PLANS

Certain employees of Beijing Gas and the EEW Group, both being indirectly-held wholly-owned subsidiaries of the Company, are entitled to retirement benefits after retirement such as supplemental medical reimbursement, allowance and beneficiary benefits pursuant to their defined benefit plans. The plans are exposed to interest rate risk, health cost inflation rate and expected salary increase rate for the employees.

(a) Net benefit expense (recognised in administrative expenses)

	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement benefit plan	Post-employment physical examination plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2020					
Current service cost	**49,379**	**4,929**	**22,815**	**6,598**	**83,721**
Past service cost	**11,584**	**1,090**	**–**	**1,499**	**14,173**
Interest cost	**37,338**	**8,245**	**8,668**	**7,948**	**62,199**
Net benefit expense	**98,301**	**14,264**	**31,483**	**16,045**	**160,093**
Year ended 31 December 2019					
Current service cost	46,069	4,863	23,447	6,517	80,896
Past service cost	12,081	1,189	–	1,694	14,964
Interest cost	35,536	8,038	13,280	7,853	64,707
Net benefit expense	93,686	14,090	36,727	16,064	160,567

36. DEFINED BENEFIT PLANS *(Continued)*

(b) Present value of the defined benefit obligations

2020

	Supplemental post-retirement medical reimbursement plan HK$'000	Supplemental post-retirement allowance and beneficiary benefit plans HK$'000	Internal retirement benefit plan HK$'000	Post-employment physical examination plan HK$'000	Total HK$'000
At 1 January 2020	999,638	223,760	855,079	214,119	2,292,596
Net benefit expenses recognised in profit or loss *(note 8)*	98,301	14,264	31,483	16,045	160,093
Benefits paid	(8,420)	(7,521)	(21,035)	(3,180)	(40,156)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	(52,049)	(1,938)	95,745	(9,054)	32,704
Exchange realignment	61,753	13,605	78,020	12,971	166,349
At 31 December 2020	1,099,223	242,170	1,039,292	230,901	2,611,586
Portion classified as current liabilities included in other payables, accruals and contract liabilities *(note 41)*					(20,327)
Non-current portion					2,591,259

36. DEFINED BENEFIT PLANS *(Continued)*

(b) Present value of the defined benefit obligations *(Continued)*

2019

	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement benefit plan	Post-employment physical examination plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2019	955,508	218,919	640,030	212,425	2,026,882
Net benefit expenses recognised in profit or loss *(note 8)*	93,686	14,090	36,727	16,064	160,567
Benefits paid	(8,547)	(10,271)	(19,383)	(3,119)	(41,320)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	(25,307)	4,560	221,922	(7,852)	193,323
Exchange realignment	(15,702)	(3,538)	(24,217)	(3,399)	(46,856)
At 31 December 2019	999,638	223,760	855,079	214,119	2,292,596
Portion classified as current liabilities included in other payables, accruals and contract liabilities *(note 41)*					(21,780)
Non-current portion					2,270,816

At 31 December 2020, the expected contribution to be made within the next 12 months out of the defined benefit obligations was HK$20,327,000 (2019: HK$21,780,000).

36. DEFINED BENEFIT PLANS *(Continued)*

(c) Principal assumptions

The most recent actuarial valuations of the present value of the defined benefit obligations for Beijing Gas and the EEW Group were carried out at 31 December 2020 by Willis Towers Watson and Aon Hewitt, respectively, using the projected unit credit method. The material actuarial assumptions used in determining the defined benefit obligations under the Group's plans are as follows:

	2020	2019
Beijing Gas:		
Discount rate	**3.75%**	3.75%
Healthcare cost inflation rate	**7.00%**	7.00%
EEW Group:		
Discount rate	**0.70%**	1.00%
Salary increase rate	**2.50%**	2.50%

36. DEFINED BENEFIT PLANS *(Continued)*

(c) Principal assumptions *(Continued)*

A quantitative sensitivity analysis for significant assumptions as at 31 December 2020 and 2019 is shown below:

	Increase in rate	Increase/ (decrease) in net defined benefit obligations	Decrease in rate	Increase/ (decrease) in net defined benefit obligations
	%	*HK$'000*	*%*	*HK$'000*
Beijing Gas				
2020				
Discount rate	**0.25**	**(93,898)**	**0.25**	**102,430**
Healthcare cost inflation rate	**1.00**	**350,058**	**1.00**	**(250,281)**
2019				
Discount rate	0.25	(67,126)	0.25	73,594
Healthcare cost inflation rate	1.00	319,565	1.00	(228,501)
EEW Group				
2020				
Discount rate	**0.25**	**(69,918)**	**0.25**	**74,432**
Salary increase rate	**0.50**	**5,176**	**0.50**	**(4,951)**
2019				
Discount rate	0.25	(58,636)	0.25	62,397
Salary increase rate	0.50	4,609	0.50	(4,400)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

37. PROVISION FOR MAJOR OVERHAULS AND ONEROUS CONTRACTS

Pursuant to the service concession arrangements on the Group's solid waste treatment operations in Mainland China, the Group has contractual obligations to maintain the infrastructures it operates to a specified level of serviceability and/or to restore the infrastructures to a specified condition before they are handed over to the grantor at the end of the service concession periods. In addition, pursuant to the contractual arrangement for one of the Group's solid waste incineration plants in Germany, the Group is obliged to demolish the solid waste incineration plant in 2025. These contractual obligations to demolish plant, maintain or restore the infrastructures, 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 expenditures on these maintenance, demolishment and restoration costs are collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis and revised where appropriate.

In addition, onerous contracts also arise from solid waste treatment service contracts in respect of the solid waste treatment operations in Germany. Management considers the unavoidable costs of meeting the obligations under certain of these contracts exceed the economic benefits expected to be recovered under such contracts.

37. PROVISION FOR MAJOR OVERHAULS AND ONEROUS CONTRACTS *(Continued)*

The movements in the provision for major overhauls of the infrastructures and onerous contracts in respect of the solid waste treatment service contracts during the year are as follows:

	Notes	Major overhauls HK$'000	Provision for Onerous contracts HK$'000	Total HK$'000
Year ended 31 December 2020				
At 1 January 2020		**219,196**	**185,905**	**405,101**
Additional provision	*8*	**23,088**	**–**	**23,088**
Increase in a discounted amount arising from the passage of time	*7*	**1,074**	**–**	**1,074**
Exchange realignment		**18,992**	**15,758**	**34,750**
At 31 December 2020		**262,350**	**201,663**	**464,013**
Portion classified as current liabilities		**–**	**(53,723)**	**(53,723)**
Non-current portion		**262,350**	**147,940**	**410,290**
Year ended 31 December 2019				
At 1 January 2019		201,688	191,230	392,918
Additional provision	*8*	21,508	–	21,508
Increase in a discounted amount arising from the passage of time	*7*	1,815	–	1,815
Exchange realignment		(5,815)	(5,325)	(11,140)
At 31 December 2019		219,196	185,905	405,101
Portion classified as current liabilities		–	(49,525)	(49,525)
Non-current portion		219,196	136,380	355,576

38. OTHER NON-CURRENT LIABILITIES

	Note	2020 HK$'000	2019 HK$'000
Other liabilities – non-current portion	*41*	**179,863**	171,710
Deferred income *(note)*		**1,774,517**	1,651,509
		1,954,380	1,823,219

Note: Deferred income of the Group mainly represented government subsidies in respect of the construction of gas pipelines and brewery plants in Mainland China by the Group. 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.

39. DEFERRED TAX

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

	2020 HK$'000	2019 HK$'000
Deferred tax assets	**1,799,088**	1,638,766
Deferred tax liabilities	**(2,654,242)**	(2,576,094)
	(855,154)	(937,328)

39. DEFERRED TAX *(Continued)*

The components of deferred tax assets and liabilities and their movements during the years ended 31 December 2020 and 2019 are as follows:

		Attributable to											
	Notes	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Transfer of assets from customers *HK$'000*	Depreciation allowances in excess of related depreciation *HK$'000*	Revaluation of investment properties *HK$'000*	Revaluation of equity investments at fair value through other comprehensive income *HK$'000*	Impairment provision and accrued expenses *HK$'000*	Defined benefit obligations *HK$'000*	Provision for major overhauls and onerous contracts *HK$'000*	Temporary differences related to operating concessions *HK$'000*	Losses available for offsetting future taxable profits *HK$'000* *(note (a))*	Withholding tax on unremitted profits *HK$'000* *(note (b))*	Net deferred tax assets/ (liabilities) *HK$'000*
At 1 January 2019		(1,863,246)	(93,357)	(2,742)	(110,938)	(8,050)	929,866	438,146	75,912	(88,733)	18,267	(122,025)	(826,900)
Acquisition of subsidiaries	*43*	(89,555)	–	–	–	–	–	–	–	–	–	–	(89,555)
Deferred tax credited/(charged) to profit or loss during the year	*11*	73,059	(22,465)	(29,757)	–	–	37,166	12,010	337	(111,093)	–	–	(40,743)
Deferred tax credited/(charged) to other comprehensive income during the year		–	–	–	–	(70,901)	–	59,650	–	–	–	–	(11,251)
Exchange realignment		49,245	1,721	5,030	1,745	3,763	(21,851)	(10,461)	(2,016)	4,337	(392)	–	31,121
At 31 December 2019 and 1 January 2020		(1,830,497)	(114,101)	(27,469)	(109,193)	(75,188)	945,181	499,345	74,233	(195,489)	17,875	(122,025)	(937,328)
Deferred tax credited/(charged) to profit or loss during the year	*11*	80,213	(7,264)	(8,956)	–	–	(9,215)	12,416	7,124	(62,417)	–	–	11,901
Deferred tax credited to other comprehensive income during the year		–	–	–	–	132,218	–	13,059	–	–	–	–	145,277
Exchange realignment		(145,657)	(7,224)	(6,927)	(6,499)	9,095	60,071	36,189	6,452	(21,780)	1,276	–	(75,004)
At 31 December 2020		(1,895,941)	(128,589)	(43,352)	(115,692)	66,125	996,037	561,009	87,809	(279,686)	19,151	(122,025)	(855,154)

Notes:

(a) At 31 December 2020, deferred tax assets have not been recognised in respect of unused tax losses of HK$4,894,193,000 (2019: HK$4,424,464,000) as they have been arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, tax losses of HK$4,872,553,000 (2019: HK$4,402,824,000) will expire in one to five years.

(b) Pursuant to income tax laws of the PRC, Germany, Luxembourg and Russia, withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in these countries. Lower withholding tax rates may be applied if there is a tax treaty between these countries and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends declared by those subsidiaries, joint ventures and associates established in these countries.

The withholding tax rates applicable to the Group are as follows:

Entities established in Mainland China	5%-10%
Entities established in Germany	25%
Entities established in Luxembourg	15%
Entities established in Russia	5%

39. DEFERRED TAX *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Deferred tax has not been fully recognised for withholding taxes that would be payable on certain portions of the unremitted earnings of certain of the Group's subsidiaries established in Mainland China, Germany and Luxembourg that are subject to withholding taxes. In the opinion of the directors, it is not probable that these subsidiaries will distribute these unremitted earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries in Mainland China, Germany and Luxembourg for which deferred tax liabilities have not been recognised totalled approximately HK$38 billion (2019: HK$30 billion) as at 31 December 2020.

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

40. TRADE AND BILLS PAYABLES

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

	2020	2019
	HK$'000	*HK$'000*
Billed:		
Within one year	**3,176,207**	3,142,503
One to two years	**137,301**	127,634
Two to three years	**10,611**	3,046
Over three years	**13,402**	15,923
	3,337,521	3,289,106
Unbilled*	**1,362,912**	1,219,237
	4,700,433	4,508,343

* *The unbilled balance was attributable to (i) purchase of natural gas near the year end which will be billed subsequently in early January 2021; and (ii) accrued extra purchase costs which will be billed when the price is agreed by Beijing Gas with the supplier.*

Included in the trade and bills payables as at 31 December 2020 are amounts of HK$25,804,000 (2019: HK$19,594,000) in total due to fellow subsidiaries, arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related parties to their major customers.

41. OTHER PAYABLES, ACCRUALS AND CONTRACT LIABILITIES

	Notes	2020 HK$'000	2019 HK$'000
Accruals		**1,510,025**	1,660,385
Defined benefit obligations – current portion	*36(b)*	**20,327**	21,780
Other liabilities	*(a)*	**7,850,536**	6,848,191
Due to holding companies	*28*	**2,620,480**	2,386,965
Due to related parties	*28*	**841,457**	734,242
Contract liabilities	*(b)*	**11,658,281**	9,756,058
		24,501,106	21,407,621
Portion classified as current liabilities		**(24,321,243)**	(21,235,911)
Non-current portion	*38*	**179,863**	171,710

Notes:

(a) The Group's other liabilities as at 31 December 2020 included, inter alia, the following:

(i) an amount of HK$28,526,000 (2019: HK$26,923,000) payable to the BMCDR in respect of a government surcharge collected on its behalf by the Group, further details of which are set out in note 29(a) to the financial statements; and

(ii) construction costs of HK$319,602,000 (2019: HK$395,705,000) payable to certain fellow subsidiaries of the Group. The balances with the fellow subsidiaries are unsecured, interest-free, and are repayable within credit periods similar to those offered by the fellow subsidiaries to their major customers.

41. OTHER PAYABLES, ACCRUALS AND CONTRACT LIABILITIES *(Continued)*

Notes: (Continued)

(b) Details of contract liabilities are as follows:

	31 December 2020	31 December 2019	1 January 2019
	HK$'000	*HK$'000*	*HK$'000*
Short-term advances received from customers in respect of:			
Sale of piped natural gas	**10,296,452**	8,666,212	7,553,199
Sale of brewery products	**1,323,950**	1,029,574	746,260
Provision of solid waste treatment services	**37,879**	60,272	91,570
Total contract liabilities	**11,658,281**	9,756,058	8,391,029

Over 90% of the contract liabilities as at the end of each of the reporting period are expected to be recognised as revenue in the following year.

The increase in contract liabilities in 2020 and 2019 was mainly due to the increase in short-term advances received from customers in relation to the sale of piped natural gas at the end of these years.

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

Yanjing Investment (a 79.77% owned subsidiary which holds 57.40% equity interests in Yanjing Brewery) and its subsidiaries (collectively the "Yanjing Investment Group") were considered subsidiaries that have material non-controlling interests during the years ended 31 December 2020 and 2019, and summary financial information of which is set out below:

	2020	2019
	HK$'000	*HK$'000*
Consolidated profit for the year allocated to non-controlling interests	**190,762**	221,398
Dividends paid to non-controlling equity holders	**194,569**	166,893
Accumulated balances of non-controlling interests at the reporting date	**8,932,400**	8,435,750

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

(Continued)

The following tables illustrate the summarised consolidated financial information of the Yanjing Investment Group:

	2020	2019
	HK\$'000	*HK\$'000*
Revenue	**11,046,394**	11,826,321
Total expenses	**(10,886,765)**	(11,603,850)
Profit for the year	**159,629**	222,471
Total comprehensive income for the year	**581,824**	105,249
Current assets	**9,832,765**	8,120,803
Non-current assets	**13,145,897**	13,152,673
Current liabilities	**(7,080,022)**	(6,424,044)
Non-current liabilities	**(819,854)**	(570,655)
Net cash flows from operating activities	**1,670,430**	1,519,945
Net cash flows used in investing activities	**(426,092)**	(513,660)
Net cash flows used in financing activities	**(218,808)**	(105,972)
Net increase in cash and cash equivalents	**1,025,530**	900,313

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

43. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the subsidiaries acquired and assumed as at the date of acquisition were as follows:

	Notes	2020 HK$'000 (note (a))	2019 HK$'000 (note (b))
Net assets acquired:			
Property, plant and equipment	*14*	**118,543**	984,455
Right-of-use assets	*16(b)*	**593**	751,948
Other intangible assets	*19*	**748**	358,646
Investment in an associate		**2,067**	–
Inventories		**137**	7,711
Trade receivables		**44,380**	269,254
Prepayments, other receivables and other assets		**324,822**	363,874
Cash and cash equivalents		**180,573**	821,298
Income tax recoverable		**–**	7,099
Trade and bills payables		**(101,138)**	(16,203)
Other payables, accruals and contract liabilities		**(224,067)**	(47,373)
Income tax payables		**(8,374)**	–
Bank and other borrowings		**–**	(2,065,581)
Lease liabilities	*16(b)*	**(593)**	(339,182)
Deferred tax liabilities	*39*	**–**	(89,555)
Other non-current liabilities		**(279,896)**	–
Total identifiable net assets at fair value		**57,795**	1,006,391
Non-controlling interest		**–**	(439,963)
		57,795	566,428
Goodwill on acquisition	*17*	**198,157**	84,735
		255,952	651,163
Satisfied by:			
Cash		**255,952**	–
Capital contribution to the acquiree in cash in 2018		**–**	651,163
		255,952	651,163

43. BUSINESS COMBINATIONS *(Continued)*

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2020 **HK$'000**	2019 HK$'000
Cash consideration paid	**(255,952)**	–
Cash and bank balances acquired	**180,573**	821,298
Cash consideration prepaid in prior year	**111,111**	–
Net inflow of cash and bank balances included in cash flows from investing activities	**35,732**	821,298

Notes:

(a) In May 2020, Beijing Gas acquired a 100% equity interest in 北京燃氣房山有限責任公司 and its subsidiaries (the "Fangshan Group") for a total cash consideration of RMB230,356,500 (equivalent to HK$255,952,000). Fangshan Group is principally engaged in the distribution and sale of piped natural gas and the installation of gas pipelines and related equipment in Fangshan District, Beijing, the PRC.

Since the acquisition, Fangshan Group contributed HK$479,961,000 to the Group's revenue and profit of HK$6,756,000 to the consolidated profit for the year ended 31 December 2020.

Had the above business combination taken place at the beginning of the current year, the Group's profit for the year ended 31 December 2020 would have been HK$5,614,892,000 and the Group's revenue would have been HK$68,440,179,000.

(b) In March 2019, Beijing Gas acquired a 60% equity interest in Tangshan Gas by way of a capital contribution of RMB800,000,000 (equivalent to HK$930,233,000), of which RMB560,000,000 had been injected into Tangshan Gas as at 31 December 2019. Tangshan Gas and its subsidiaries (the "Tangshan Group") are principally engaged in the distribution and sale of piped natural gas in Hebei province, the PRC.

The Group has elected to measure the non-controlling interest in the subsidiaries acquired at the non-controlling interest's proportionate share of the identifiable net assets of the subsidiaries acquired.

Since the acquisition, Tangshan Group contributed HK$1,065,032,000 to the Group's revenue and loss of HK$112,112,000 to the consolidated profit for the year ended 31 December 2019.

Had the above business combination taken place at the beginning of the prior year, the Group's profit for the year ended 31 December 2019 would have been HK$8,570,847,000 and the Group's revenue would have been HK$68,073,511,000.

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions of investing and financing activities

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$61,527,000 (2019: HK$252,746,000) each in respect of lease arrangements for land, office premises, staff quarters, plant and machinery, gas pipelines and motor vehicles.

(b) Changes in liabilities arising from financing activities

	Notes	Bank and other borrowings HK$'000	Guaranteed bonds and notes HK$'000	Lease liabilities HK$'000
At 1 January 2019		28,497,908	31,024,807	570,048
Acquisition of subsidiaries	43	2,065,581	–	339,182
Changes from financing cash flows		2,891,820	–	(334,103)
New leases	16(b)	–	–	252,746
Interest expense		–	40,209	45,573
Exchange realignment		(329,058)	(423,774)	(24,429)
At 31 December 2019 and 1 January 2020		**33,126,251**	**30,641,242**	**849,017**
Acquisition of subsidiaries	43	**–**	**–**	**593**
Changes from financing cash flows		**3,018,964**	**(47,029)**	**(162,640)**
New leases	16(b)	**–**	**–**	**61,527**
Interest expense		**–**	**31,438**	**28,993**
Reclassification		**157,303**	**–**	**(157,303)**
Exchange realignment		**866,103**	**846,752**	**105,732**
At 31 December 2020		**37,168,621**	**31,472,403**	**725,919**

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

(c) Total cash outflow for leases

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

	2020	2019
	HK$'000	HK$'000
Within operating activities	**73,010**	189,227
Within financing activities	**162,640**	334,103
	235,650	523,330

45. CAPITAL COMMITMENTS

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

	2020	2019
	HK$'000	HK$'000
Contracted, but not provided for:		
Buildings	**–**	2,718
Gas pipelines and plant and machinery	**12,799,067**	4,168,848
Service concession arrangements	**500,510**	820,597
Total	**13,299,577**	4,992,163

46. RELATED PARTY DISCLOSURES

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

Name of related party	Nature of transaction	Notes	2020 HK$'000	2019 HK$'000
Non-controlling equity holders of subsidiaries and their associates:				
北京燕京啤酒集團公司 and its associates	Purchase of bottle labels[γ]	*(i)*	**68,401**	79,439
	Purchase of bottle caps[γ]	*(i)*	**37,224**	44,656
	Canning service fees paid[γ]	*(ii)*	**18,461**	34,081
	Comprehensive support service fees paid[γ]	*(iii)*	**17,466**	17,665
	Land rental expenses[γ]	*(iv)*	**1,979**	2,001
	Trademark licensing fees paid[γ]	*(v)*	**36,630**	58,761
	Less: refund for advertising subsidies[γ]	*(v)*	**(900)**	(7,428)
Fellow subsidiaries:				
北京北燃實業有限公司 and its subsidiaries	Sale of piped natural gas[#]	*(vi)*	**342,819**	512,831
	Engineering service income[#]	*(vii)*	**12,709**	23,156
	Comprehensive service income[#]	*(vii)*	**3,056**	2,023
	Engineering service expenses[#]	*(vii)*	**147,707**	165,978
	Comprehensive service expenses[#]	*(vii)*	**162,721**	90,345
	Building rental expenses[#]	*(viii)*	**136,754**	39,582
	Building rental income[#]	*(viii)*	**835**	851
	Purchase of goods[#]	*(viii)*	**33,985**	49,016
	Sale of goods[#]	*(ix)*	**11,864**	36,928
Associate:				
北京控股集團財務有限公司 ("BE Group Finance")	Interest expense[@]	*(x)*	**43,259**	38,627
	Interest income[@]	*(x)*	**54,351**	21,898

γ *These related party transactions also constitute continuing connected transactions that are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.*

\# *These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.*

@ *These related party transactions also constitute continuing connected transactions that are subject to the announcement, reporting and annual review requirements but are exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.*

46. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Notes:

(i) The purchase prices for bottle labels and bottle caps were determined by reference to the agreed prices for the preceding year and an annual adjustment determined by reference to the price index in Beijing in the preceding year.

(ii) The canning service fees were charged at a rate equal to the costs of the canning services incurred by Yanjing Beer Group plus a mutually-agreed profit margin.

(iii) The comprehensive support service fees paid include the following:

– fees for security and canteen services which were determined based on the annual cost of labour, depreciation and maintenance for the preceding year and an annual adjustment by reference to the price index in Beijing; and

– rental expenses, related to the premises occupied and used by Yanjing Brewery as its office, canteen and staff dormitories, which were determined by reference to the prevailing market rentals at the time when the relevant agreements were entered into.

(iv) The land rental expenses were charged at a mutually-agreed amount of RMB1,761,000 (2019: RMB1,761,000) per annum.

(v) The trademark licensing fees paid were for the use of the "Yanjing" trademark and were determined based on 1% (2019: 1%) of the annual sales of beer and mineral water products made by Yanjing Brewery and at a rate of RMB0.008 (2019: RMB0.008) per bottle of beer sold by the subsidiaries of Yanjing Brewery. Yanjing Brewery Group would refund 20% of the trademark licensing fees from sales of beer received from Yanjing Brewery for the use by Yanjing Brewery to develop and promote the "Yanjing" trademark.

(vi) The selling price of piped natural gas was prescribed by the PRC government.

(vii) The service fees were determined by reference to the then prevailing market rates and set at prices not higher than the guidance prices set by the PRC government.

(viii) The purchase prices of goods and the building rentals were determined by reference to the then prevailing market rates.

(ix) The selling prices of goods were determined on a cost-plus basis.

46. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Notes: (Continued)

(x) BE Group Finance is a 38.78% owned associate of the Group and also a subsidiary of Beijing Enterprises Group. BE Group Finance was established to act as a platform for members of Beijing Enterprises Group for the provision of intra-group loan facilities through financial products including deposit-taking, money-lending and custodian services.

On 20 December 2019, the Company and BE Group Finance entered into a deposit agreement (the "Deposit Agreement") whereby the Company and BE Group Finance will continue to carry out transactions under a deposit services master agreement entered on 29 December 2014 for a further period of three years from 1 January 2020 to 31 December 2022. The terms and conditions under the Deposit Agreement are substantially the same as those under the deposit services master agreement and the revised daily aggregate of deposits placed by the Group with BE Group Finance (including any interest accrued thereon) during the term of the Deposit Agreement will not exceed HK$2.23 billion (2019: HK$2.9 billion).

Interest rates on deposits placed in and loans offered by BE Group Finance denominated in RMB were determined by reference to the then prevailing market rates offered by the People's Bank of China, while the related interest rates for deposits and loans denominated in other currencies were determined by reference to the then prevailing market rates offered by major banks in the PRC.

The amounts of deposits placed by the Group with BE Group Finance and the amounts of loans borrowed by the Group from BE Group Finance as at the end of reporting period are disclosed in notes 30 and 34(b)(ii) to the financial statements.

(b) Outstanding balances with related parties

(i) Details of the Group's balances with related parties included in prepayments, other receivables and other assets, cash and cash equivalents, bank and other borrowings and other payables, accruals and contract liabilities are disclosed in notes 27, 28, 30, 34(b)(ii) and 41 to the financial statements.

(ii) Details of the Group's trade balances with fellow subsidiaries and a joint venture, included in trade receivables and trade and bills payables are disclosed in notes 26(a) and 40 to the financial statements, respectively.

46. RELATED PARTY DISCLOSURES *(Continued)*

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

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the year, the Group has transactions with Other SOEs including, but not limited to, the sale of piped natural gas, bank deposits and borrowings, and utilities consumptions. The directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the Company's directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(d) Compensation of key management personnel of the Group

	2020 ***HK$'000***	2019 *HK$'000*
Short term employee benefits	**11,910**	17,610
Pension scheme contributions	**29**	29
Total compensation paid to key management personnel	**11,939**	17,639

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

47. FINANCIAL INSTRUMENTS BY CATEGORY

Save certain equity investments being designated as equity investments at fair value through other comprehensive income and financial assets mandatorily measured at fair value through profit or loss, as further detailed in notes 23 and 24 to the financial statements, respectively, all financial assets and financial liabilities of the Group as at 31 December 2020 and 2019 were classified as financial assets and financial liabilities measured at amortised cost.

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The fair value measurement hierarchy of the Group's financial instruments are detailed as follows:

(i) the listed equity investments (note 23) are stated at fair value based on their quoted market prices (as categorised within Level 1 of the fair value hierarchy);

(ii) the principal-protect investment deposits (note 24) is stated at fair value based on a quoted price with reference to market observable inputs currently available for investments with similar terms and credit risk (as categorised within Level 2 of the fair value hierarchy); and

(iii) the unlisted fund investment (note 24) is stated at fair value based on a market-based valuation (as categorised within Level 3 of the fair value hierarchy).

The fair value of the unlisted investment fund classified as a financial asset at fair value through profit or loss (note 24) has been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates.

The valuation requires the Company's directors to determine comparable companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to book ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the equity value of the comparable company by a book value measure. The trading multiple is then discounted for considerations such as illiquidity nature of the investment. The discounted multiple is applied to the corresponding earnings measure of the unlisted investment to measure the fair value.

The Company's directors believe that the estimated fair value of the unlisted fund instrument resulting from the valuation technique, which is recorded in the consolidated statement of financial position, is reasonable, and that it was the most appropriate value as at the end of the reporting period.

Management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model and has quantified this as a reduction in fair value of approximately HK$50 million, using less favourable assumptions, and an increase in fair value of approximately HK$50 million, using more favourable assumptions.

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Below is a summary of significant unobservable inputs to the valuation of the unlisted fund instrument together with a quantitative sensitivity analysis as at 31 December 2020:

Valuation technique	Significant unobservable inputs	Values	Sensitivity of fair value to the inputs
Valuation multiples	Average EV/EBITDA multiple of peers	1.8 to 14.0 (2019: 3.2 to 13.4)	1% (2019: 1%) increase/decrease in multiple would result in an increase/ decrease in fair value by HK$8,807,000 (2019: HK$8,640,000)
	Average P/B multiple of peers	0.6 to 4.1 (2019: 0.8 to 4.2)	1% (2019: 1%) increase/decrease in multiple would result in an increase/ decrease in fair value by HK$14,227,000 (2019: HK$14,014,000)
	Discount for lack of marketability	14.4% (2019: 14.4%)	1% (2019: 1%) increase/decrease in discount would result in a decrease/ increase in fair value by HK$26,714,000 (2019: HK$26,215,000)

The discount for lack of marketability represents the amount of discount determined by the Group that market participants would take into account when pricing the investment.

For other non-current financial assets and liabilities, in the opinion of the directors of the Company, since their carrying amounts are not significantly different from their respective fair values, no disclosure of the fair values of these financial instruments is made.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, the guaranteed bonds and notes and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as equity and fund instruments, trade receivables, contract assets, other receivables and other assets, trade and bills payables, other payables, accruals and contract liabilities, receivables under service concession arrangements and amounts due from/to holding companies, fellow subsidiaries, associates, joint ventures, and related parties.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and fair value risk. The board of directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations.

Banks and other borrowings, the guaranteed bonds and notes, cash and short term deposits are stated at amortised cost and not revalued. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

The following tables set out the carrying amounts, by maturity, of the Group's interest-bearing financial instruments as at the end of the reporting period that are exposed to interest rate risk:

	Carrying amount		Effective interest rate	
	2020	2019	**2020**	2019
	HK$'000	*HK$'000*	***%***	*%*
Floating rate:				
Restricted cash and pledged deposits	**36,879**	36,701	**0.35**	0.35
Cash and cash equivalents	**18,680,495**	10,546,688	**0.35**	0.35
Bank and other borrowings (other than lease liabilities)	**32,801,561**	30,128,023	**3.54**	3.89
Fixed rate:				
Cash and cash equivalents	**10,441,933**	11,612,233	**1.10**	1.10
Bank and other borrowings (other than lease liabilities)	**4,204,957**	2,840,069	**2.98**	3.84
Guaranteed bonds and notes	**31,472,403**	30,641,242	**3.28**	3.40

At 31 December 2020, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK$58 million (2019: HK$82 million).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the beginning of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis was performed on the same basis for 2019.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China and Germany, the Group's financial position can be affected significantly by movements in the RMB/HK$ exchange rate.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB/HK$ and EUR/HK$ exchange rates, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/(decrease) in profit before tax		**Increase/(decrease) in equity**	
	2020	2019	**2020**	2019
	HK$'000	HK$'000	**HK$'000**	HK$'000
If Hong Kong dollar weakens against RMB by 5%	**283,466**	390,825	**4,228,954**	3,818,961
If Hong Kong dollar strengthens against RMB by 5%	**(283,466)**	(390,825)	**(4,228,954)**	(3,818,961)
If Hong Kong dollar weakens against EUR by 5%	**54,438**	53,183	**27,566**	15,297
If Hong Kong dollar strengthens against EUR by 5%	**(54,438)**	(53,183)	**(27,566)**	(15,297)

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group is exposed to credit risk arising from its piped gas operation, brewery operation and solid waste treatment operation. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on individual customer's past history of making payments when they fall due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Various companies have different credit policies, depending on markets and businesses in which they operate. Ageing analysis of trade receivables is prepared and closely monitored in order to minimise any credit risk associated with the receivables. Normally, the Group does not obtain collateral from customers. In respect of the amounts due from contract customers for contract work arising from the Group's solid waste treatment operation, the Group transacts mainly with municipal governments in different provinces in the PRC which do not have significant credit risk.

Maximum exposure and year-end staging

At 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables*	–	–	–	7,040,022	7,040,022
Financial assets included in prepayments, other receivables and other assets					
– Normal**	4,166,708	–	–	–	4,166,708
– Doubtful**	–	93,333	–	–	93,333
Receivables under service concession arrangements					
– Normal	3,077,283	–	–	–	3,077,283
Receivable under a finance lease					
– Normal	800,878	–	–	–	800,878
Restricted cash and pledged deposits					
– Not yet past due	36,879	–	–	–	36,879
Cash and cash equivalents					
– Not yet past due	29,122,428	–	–	–	29,122,428
	37,204,176	93,333	–	7,040,022	44,337,531

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Maximum exposure and year-end staging (Continued)

At 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables*	–	–	–	6,221,099	6,221,099
Financial assets included in prepayments, other receivables and other assets					
– Normal**	3,495,789	–	–	–	3,495,789
– Doubtful**	–	88,090	–	–	88,090
Receivables under service concession arrangements					
– Normal	2,477,807	–	–	–	2,477,807
Receivable under a finance lease					
– Normal	823,003	–	–	–	823,003
Restricted cash and pledged deposits					
– Not yet past due	36,701	–	–	–	36,701
Cash and cash equivalents					
– Not yet past due	22,158,921	–	–	–	22,158,921
	28,992,221	88,090	–	6,221,099	35,301,410

* *For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 26 to the financial statements, respectively.*

** *The credit quality of the financial assets included in prepayments, other receivables and other assets are considered as "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 as "doubtful".*

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of bank loans, other loans, guaranteed bonds and notes. In addition, banking facilities have been put in place for contingency purposes.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of short term loans to cover expected cash demands, subject to approval by the management of the Group. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The maturity profile of the Group's financial liabilities (other than defined benefit obligations) as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

At 31 December 2020

	On demand or within one year *HK$'000*	In the second year *HK$'000*	In the third to fifth years, inclusive *HK$'000*	Beyond five years *HK$'000*	Total *HK$'000*
Trade and bills payables	4,700,433	–	–	–	4,700,433
Accruals and other liabilities	19,931,644	179,863	–	–	20,111,507
Due to holding companies	2,620,480	–	–	–	2,620,480
Due to related parties	841,457	–	–	–	841,457
Bank and other borrowings (excluding lease liabilities)	15,902,870	8,297,368	11,950,867	3,983,621	40,134,726
Guaranteed bonds and notes	5,570,221	10,687,390	13,376,453	8,873,363	38,507,427
Lease liabilities	242,435	196,165	213,214	459,296	1,111,110
	49,809,540	19,360,786	25,540,534	13,316,280	108,027,140

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

At 31 December 2019

	On demand or within one year *HK$'000*	In the second year *HK$'000*	In the third to fifth years, inclusive *HK$'000*	Beyond five years *HK$'000*	Total *HK$'000*
Trade and bills payables	4,508,343	–	–	–	4,508,343
Accruals and other liabilities	17,053,044	171,710	–	–	17,224,754
Due to holding companies	2,386,965	–	–	–	2,386,965
Due to related parties	734,242	–	–	–	734,242
Bank and other borrowings	7,626,464	11,104,087	13,667,145	3,518,194	35,915,890
Guaranteed bonds and notes	5,391,391	5,520,903	18,431,841	9,195,550	38,539,685
Lease liabilities	243,434	201,988	280,505	453,108	1,179,035
	37,943,883	16,998,688	32,379,491	13,166,852	100,488,914

Fair value risk

The Group is exposed to fair value risk, mainly arising from its listed equity investments and unlisted fund investment. The fair values of the equity investments and unlisted fund at the end of the reporting period are determined based on quoted market prices and a valuation performed by an independent professional valuer, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the fair value of these investments, with all other variables held constant, of the Group's profit before tax and equity attributable to shareholders of the Company:

	Increase/(decrease) in profit before tax		**Increase/(decrease) in equity**	
	2020	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
If fair values increased by 5%	**131,909**	113,262	**217,026**	211,403
If fair values decreased by 5%	**(131,909)**	(113,262)	**(217,026)**	(211,403)

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair value risk *(Continued)*

In addition, the market value of the Group's investment in an investee, which is accounted for using the equity method of accounting, was lower than its then carrying amount. Accordingly, the Group carried out an impairment testing to determine whether the investment in the investee is impaired. The recoverable amount of the investment is determined at the higher of the value in use and the fair value less costs of disposal. The value in use of the investment in the investee is determined with reference to a financial forecast approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually, and its fair value less costs to sell is determined based on the quoted market price of the investee. Based on the result of the impairment testing, in the opinion of the directors, an impairment loss is recognised in profit or loss for the year ended 31 December 2019 against the Group's investment in the investee.

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 adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

Depending on the market conditions and funding arrangements, if at any time, repurchase of the Company's shares will lead to an enhancement of the net asset value per share and/or earnings per share of the Group, the directors will authorise such transactions, when appropriate.

The Group monitors capital using a net gearing ratio, which is net borrowing divided by the total equity. Net borrowing includes total bank and other borrowings, guaranteed bonds and notes less cash and bank balances (including restricted cash and pledged deposits). The net gearing ratio as at the end of the reporting period is as follows:

	2020 ***HK$'000***	2019 *HK$'000*
Bank and other borrowings	**37,168,621**	33,126,251
Guaranteed bonds and notes	**31,472,403**	30,641,242
Less: Cash and bank balances	**(29,159,307)**	(22,195,622)
Net borrowing	**39,481,717**	41,571,871
Total equity	**97,425,722**	87,014,827
Gearing ratio	**40.5%**	47.8%

50. EVENT AFTER THE REPORTING PERIOD

Save the announcement of the Incident by Blue Sky, an associate of the Group, on 17 January 2021 and the suspension of trading of its shares on the Hong Kong Stock Exchange since then, as disclosed in note 22(d) to the financial statements, the Group has no significant events subsequent to the reporting period.

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2020	2019
	HK$'000	*HK$'000*
ASSETS		
Non-current assets:		
Property, plant and equipment	**1,347**	2,118
Investment properties	**56,914**	56,914
Right-of-use assets	**30,503**	47,196
Investments in subsidiaries	**75,450,286**	72,860,922
Investments in associates	**347,956**	121,013
Equity investments at fair value through other comprehensive income	**2,415,720**	1,256,081
Total non-current assets	**78,302,726**	74,344,244
Current assets:		
Prepayments, other receivables and other assets	**106,810**	301,659
Cash and cash equivalents	**115,305**	112,006
Total current assets	**222,115**	413,665
TOTAL ASSETS	**78,524,841**	74,757,909

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2020	2019
	HK$'000	*HK$'000*
EQUITY AND LIABILITIES		
Equity:		
Share capital	**30,401,883**	30,401,883
Reserves *(note)*	**2,101,566**	941,927
TOTAL EQUITY	**32,503,449**	31,343,810
Non-current liabilities:		
Bank and other borrowings	**7,934,688**	12,784,292
Lease liabilities	**14,355**	31,146
Total non-current liabilities	**7,949,043**	12,815,438
Current liabilities:		
Other payables and accruals	**1,568,978**	1,654,192
Due to subsidiaries	**24,413,184**	23,168,136
Income tax payable	**85,372**	85,372
Bank and other borrowings	**11,988,024**	5,674,767
Lease liabilities	**16,791**	16,194
Total current liabilities	**38,072,349**	30,598,661
TOTAL LIABILITIES	**46,021,392**	43,414,099
TOTAL EQUITY AND LIABILITIES	**78,524,841**	74,757,909

Li Yongcheng
Director

Tam Chun Fai
Director

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

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

	Note	Capital reserve HK$'000	Investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2019		13,220	(22,773)	17,561	1,015,126	1,023,134
Profit for the year and total comprehensive income for the year		–	–	–	1,344,913	1,344,913
Final 2018 dividend		–	–	–	(921,299)	(921,299)
Interim 2019 dividend	12	–	–	–	(504,821)	(504,821)
At 31 December 2019 and 1 January 2020		13,220	(22,773)	17,561	933,919	941,927
Profit for the year		–	–	–	1,438,740	1,438,740
Other comprehensive income for the year:						
Changes in fair value of equity investments at fair value through other comprehensive income		–	1,159,639	–	–	1,159,639
Total comprehensive income for the year		–	1,159,639	–	1,438,740	2,598,379
Final 2019 dividend	12	–	–	–	(933,919)	(933,919)
Interim 2020 dividend	12	–	–	–	(504,821)	(504,821)
At 31 December 2020		13,220	1,136,866	17,561	933,919	2,101,566

52. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2021.

INDEPENDENT AUDITOR'S REPORT

EY 安永

Ernst & Young
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Central, Hong Kong

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To the members of Beijing Enterprises Holdings Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 56 to 194, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 FOR OPINION

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

EY安永

KEY AUDIT MATTERS

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

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

Key audit matter	**How our audit addressed the key audit matter**
Goodwill impairment testing	
At 31 December 2019, the goodwill carried in the Group's financial statements was approximately HK$16,332 million. Management is required to perform a test on goodwill for impairment at least on an annual basis. This test is largely based on management expectations, assumptions and estimates of future results of the cash-generating units to which the goodwill has been allocated. The assumptions are affected by expectations of future market or economic conditions. The impairment test is based on the comparison between the recoverable amounts of the relevant cash-generating units, and their respective carrying amounts. Given the complexity and judgemental nature of the impairment testing, management engaged an independent external valuer to prepare the valuation models to assist with the impairment assessment. Accordingly, this is identified as a key audit matter. The related disclosures are included in notes 4 and 18 to the consolidated financial statements.	We assessed the competency and objectivity of the independent external valuer engaged by management and involved our internal valuation experts to support us in our audit work. We evaluated management expectations, assumptions and estimates of future results of the cash-generating units used in the valuation models by (i) testing the assumptions used in the cash flow forecasts; (ii) comparing the historical forecast with actual results; and (iii) obtaining corroborative evidence to support the growth assumptions. We carried out audit procedures on management's sensitivity calculations. We also assessed the adequacy of the disclosures for the impairment testing in the consolidated financial statements, specifically the key assumptions with the most significant effect on the determination of the recoverable amounts, such as the discount rates and growth rates.

EY 安永

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Estimation in revenue recognition in relation to piped gas operation	
The recognition of revenue generated from piped gas operation between the date of the last metre reading and the year end depends on the estimated volume of gas sold during the period. Judgements are involved to determine the unread volume of gas sold to measure revenue. The Group's accrued revenue is estimated based on the billed volume from the latest metre reading period, adjusted by the location and nature of customers. The related disclosures are included in note 4 to the consolidated financial statements.	We evaluated management's estimation by comparing the subsequent actual bills with accrued revenue. We also performed substantive testing on the source data, control testing on the key control points, and reviewed the calculation of accrued revenue. In addition, we performed analytical review on the overall financial performance, including monthly sales analysis by types of customer, gross profit margin analysis and recoverability analysis. We obtained explanations for material differences from our expectation formed with reference to growth of customer base and seasonal factors of current year.

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.

EY 安永

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.

EY 安永

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

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

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

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 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
REVENUE	6	**67,783,028**	67,764,770
Cost of sales		**(56,836,891)**	(57,201,105)
Gross profit		**10,946,137**	10,563,665
Gains on deemed disposal of partial interests in associates	22(a)	**338,115**	549,014
Other income and gains, net	7	**1,387,500**	1,364,969
Selling and distribution expenses		**(2,066,966)**	(2,237,692)
Administrative expenses		**(4,846,395)**	(4,784,957)
Other operating expenses, net		**(978,673)**	(1,041,535)
Finance costs	8	**(2,194,968)**	(1,977,744)
Share of profits and losses of:			
Joint ventures		**28,810**	(6,715)
Associates	22(b), 22(c)	**6,982,418**	6,666,446
PROFIT BEFORE TAX	9	**9,595,978**	9,095,451
Income tax	12	**(1,022,369)**	(1,158,810)
PROFIT FOR THE YEAR		**8,573,609**	7,936,641
ATTRIBUTABLE TO:			
Shareholders of the Company		**8,054,780**	7,577,383
Non-controlling interests		**518,829**	359,258
		8,573,609	7,936,641
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
Basic and diluted	14	**HK$6.38**	HK$6.00

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 *HK$'000*	2018 *HK$'000*
PROFIT FOR THE YEAR		**8,573,609**	7,936,641
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(741,233)**	(2,556,366)
Share of other comprehensive loss of associates		**(678,817)**	(1,797,926)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(1,420,050)**	(4,354,292)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Defined benefit obligations:			
Actuarial gain/(loss), net	*36(b)*	**(193,323)**	113,955
Income tax effect	*39*	**59,650**	(32,007)
		(133,673)	81,948
Equity investments at fair value through other comprehensive income:			
Changes in fair value		**355,682**	(930,639)
Income tax effect	*39*	**(70,901)**	222,319
		284,781	(708,320)
Share of other comprehensive income/(loss) of associates		**(16,037)**	83,019
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		**135,071**	(543,353)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX		**(1,284,979)**	(4,897,645)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**7,288,630**	3,038,996
ATTRIBUTABLE TO:			
Shareholders of the Company		**6,954,047**	3,054,966
Non-controlling interests		**334,583**	(15,970)
		7,288,630	3,038,996

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	*15*	**51,898,919**	51,717,563
Investment properties	*16*	**1,131,346**	1,147,395
Right-of-use assets	*17(b)*	**2,839,886**	–
Prepaid land premiums	*17(b)*	**–**	1,469,087
Goodwill	*18*	**16,332,072**	16,553,016
Operating concessions	*19*	**3,783,828**	2,981,150
Other intangible assets	*20*	**3,373,759**	3,272,196
Investments in joint ventures	*21*	**327,691**	358,475
Investments in associates	*22*	**57,244,835**	53,375,575
Equity investments at fair value through other comprehensive income	*23*	**3,284,217**	2,908,338
Financial asset at fair value through profit or loss	*24*	**2,265,249**	2,301,452
Receivables under service concession arrangements	*19*	**2,380,255**	1,807,792
Receivable under a finance lease	*17(a)*	**738,296**	846,572
Prepayments, other receivables and other assets	*27*	**937,969**	1,538,539
Deferred tax assets	*39*	**1,638,766**	1,423,522
Total non-current assets		**148,177,088**	141,700,672
Current assets:			
Prepaid land premiums	*17(b)*	**–**	38,342
Inventories	*25*	**5,189,188**	5,138,624
Receivable under a finance lease	*17(a)*	**84,707**	81,260
Receivables under service concession arrangements	*19*	**97,552**	123,605
Trade receivables	*26*	**6,029,450**	5,216,897
Prepayments, other receivables and other assets	*27*	**3,638,798**	3,611,879
Other tax recoverables		**393,871**	609,522
Restricted cash and pledged deposits	*29*	**36,701**	39,983
Cash and cash equivalents	*30*	**22,158,921**	17,935,496
Total current assets		**37,629,188**	32,795,608
TOTAL ASSETS		**185,806,276**	174,496,280

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	*31*	**30,401,883**	30,401,883
Reserves	*33(a)*	**44,879,756**	39,270,734
		75,281,639	69,672,617
Non-controlling interests		**11,733,188**	11,342,755
TOTAL EQUITY		**87,014,827**	81,015,372
Non-current liabilities:			
Bank and other borrowings	*34*	**25,765,222**	26,958,501
Guaranteed bonds and notes	*35*	**26,268,062**	31,024,807
Lease liabilities	*17(b)*	**684,279**	–
Defined benefit obligations	*36(b)*	**2,270,816**	2,011,333
Provision for major overhauls and onerous contracts	*37*	**355,576**	341,974
Other non-current liabilities	*38*	**1,823,219**	1,708,842
Deferred tax liabilities	*39*	**2,576,094**	2,250,422
Total non-current liabilities		**59,743,268**	64,295,879

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Current liabilities:			
Trade and bills payables	*40*	**4,508,343**	4,504,712
Other payables, accruals and contract liabilities	*41*	**21,235,911**	21,413,851
Provision for major overhauls and onerous contracts	*37*	**49,525**	50,944
Income tax payables		**981,218**	1,227,743
Other tax payables		**374,237**	448,372
Bank and other borrowings	*34*	**7,361,029**	1,539,407
Guaranteed bonds and notes	*35*	**4,373,180**	–
Lease liabilities	*17(b)*	**164,738**	–
Total current liabilities		**39,048,181**	29,185,029
TOTAL LIABILITIES		**98,791,449**	93,480,908
TOTAL EQUITY AND LIABILITIES		**185,806,276**	174,496,280

Hou Zibo
Director

Tam Chun Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

		Attributable to shareholders of the Company										
	Notes	Share capital HK$'000	Capital reserve HK$'000 (note 33(b))	Investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Defined benefit plans reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 33(c))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018		30,401,883	967,094	546,304	84,051	(166,174)	964,337	9,853,215	24,917,340	67,568,050	11,604,955	79,173,005
Profit for the year		–	–	–	–	–	–	–	7,577,383	7,577,383	359,258	7,936,641
Other comprehensive income/(loss) for the year:												
Equity investments at fair value through other comprehensive income:												
Changes in fair value		–	–	(930,639)	–	–	–	–	–	(930,639)	–	(930,639)
Income tax effect	39	–	–	222,319	–	–	–	–	–	222,319	–	222,319
Exchange differences on translation of foreign operations		–	–	–	–	–	(2,180,210)	–	–	(2,180,210)	(376,156)	(2,556,366)
Defined benefit obligations:												
Actuarial gains	36(b)	–	–	–	–	112,629	–	–	–	112,629	1,326	113,955
Income tax effect	39	–	–	–	–	(31,609)	–	–	–	(31,609)	(398)	(32,007)
Share of other comprehensive income/(loss) of associates		–	–	86,388	–	(3,369)	(1,797,926)	–	–	(1,714,907)	–	(1,714,907)
Total comprehensive income/(loss) for the year		–	–	(621,932)	–	77,651	(3,978,136)	–	7,577,383	3,054,966	(15,970)	3,038,996
Capital contribution from non-controlling equity holders of subsidiaries		–	–	–	–	–	–	–	–	–	3,181	3,181
Acquisition of a subsidiary		–	–	–	–	–	–	–	–	–	47,593	47,593
Deemed disposal of partial interest in a subsidiary		–	–	–	–	–	–	–	–	–	(2,958)	(2,958)
Share of reserves of associates		–	311,654	–	–	–	–	–	–	311,654	–	311,654
Final 2017 dividend		–	–	–	–	–	–	–	(858,196)	(858,196)	–	(858,196)
Interim 2018 dividend	13	–	–	–	–	–	–	–	(403,857)	(403,857)	–	(403,857)
Dividends paid to non-controlling equity holders of subsidiaries		–	–	–	–	–	–	–	–	–	(294,046)	(294,046)
Transfer to PRC reserve funds		–	–	–	–	–	–	1,297,798	(1,297,798)	–	–	–
At 31 December 2018 and 1 January 2019		30,401,883	1,278,748*	(75,628)*	84,051*	(88,523)*	(3,013,799)*	11,151,013*	29,934,872*	69,672,617	11,342,755	81,015,372
Profit for the year		–	–	–	–	–	–	–	8,054,780	8,054,780	518,829	8,573,609
Other comprehensive income/(loss) for the year:												
Equity investments at fair value through other comprehensive income:												
Changes in fair value		–	–	355,682	–	–	–	–	–	355,682	–	355,682
Income tax effect	39	–	–	(70,901)	–	–	–	–	–	(70,901)	–	(70,901)
Exchange differences on translation of foreign operations		–	–	–	–	–	(559,152)	–	–	(559,152)	(182,081)	(741,233)
Defined benefit obligations:												
Actuarial losses	36(b)	–	–	–	–	(190,490)	–	–	–	(190,490)	(2,833)	(193,323)
Income tax effect	39	–	–	–	–	58,982	–	–	–	58,982	668	59,650
Share of other comprehensive loss of associates		–	–	(14,479)	–	(1,558)	(678,817)	–	–	(694,854)	–	(694,854)
Total comprehensive income/(loss) for the year		–	–	270,302	–	(133,066)	(1,237,969)	–	8,054,780	6,954,047	334,583	7,288,630
Acquisition of subsidiaries	43	–	–	–	–	–	–	–	–	–	439,963	439,963
Deregistration of subsidiaries		–	–	–	–	–	–	–	–	–	(72,803)	(72,803)
Share of reserves of associates		–	81,095	–	–	–	–	–	–	81,095	–	81,095
Final 2018 dividend	13	–	–	–	–	–	–	–	(921,299)	(921,299)	–	(921,299)
Interim 2019 dividend	13	–	–	–	–	–	–	–	(504,821)	(504,821)	–	(504,821)
Dividends paid to non-controlling equity holders of subsidiaries		–	–	–	–	–	–	–	–	–	(311,310)	(311,310)
Transfer to PRC reserve funds		–	–	–	–	–	–	1,168,278	(1,168,278)	–	–	–
At 31 December 2019		30,401,883	1,359,843*	194,674*	84,051*	(221,589)*	(4,251,768)*	12,319,291*	35,395,254*	75,281,639	11,733,188	87,014,827

* *These reserve accounts comprise the consolidated reserves of HK$44,879,756,000 (2018: HK$39,270,734,000) in the consolidated statement of financial position as at 31 December 2019.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**9,595,978**	9,095,451
Adjustments for:			
Gains on deemed disposal of partial interests in associates	*22(a)*	**(338,115)**	(549,014)
Bank interest income	*7*	**(254,723)**	(235,922)
Finance income on the net investment in a finance lease	*7*	**(61,516)**	(74,256)
Transfer of assets from customers	*7*	**(115,914)**	–
Gain on disposal of items of property, plant and equipment, net	*7*	**(2,240)**	(13,469)
Dividend income of an equity investment at fair value through other comprehensive income	*7*	**(49,402)**	(48,740)
Investment income of a financial asset at fair value through profit or loss	*7*	**(160,284)**	(249,624)
Finance costs	*8*	**2,194,968**	1,977,744
Depreciation of items of property, plant and equipment	*9*	**3,592,541**	3,500,464
Depreciation of right-of-use assets	*9*	**198,898**	–
Amortisation of prepaid land premiums	*9*	**–**	38,609
Amortisation of operating concessions	*9*	**131,863**	122,425
Amortisation of other intangible assets	*9*	**235,434**	288,695
Impairment of items of property, plant and equipment	*15*	**–**	600,608
Impairment of prepaid land premiums	*17(b)*	**–**	76,254
Impairment of goodwill	*18*	**81,118**	–
Impairment of operating concessions	*19*	**158,889**	–
Impairment/(reversal of impairment) of trade receivables, net	*9*	**(56,825)**	85,298
Impairment of other receivables, net	*9*	**205,253**	70,926
Share of profits and losses of joint ventures and associates		**(7,011,228)**	(6,659,731)
Operating profit before working capital changes		**8,344,695**	8,025,718

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	2019 *HK$'000*	2018 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES *(Continued)*		
Operating profit before working capital changes	**8,344,695**	8,025,718
Increase in inventories	**(127,907)**	(63,288)
Increase in receivables under service concession arrangements	**(252,743)**	(33,360)
Increase in trade receivables	**(699,510)**	(1,507,975)
Decrease/(increase) in prepayments, other receivables and other assets	**7,777**	(120,022)
Decrease/(increase) in other tax recoverables	**215,111**	(3,671)
Increase in trade and bills payables	**145,647**	576,055
Increase/(decrease) in other payables, accruals and contract liabilities	**(41,470)**	2,224,208
Increase/(decrease) in other tax payables	**(66,968)**	184,357
Increase in provision for major overhauls and onerous contracts	**21,508**	21,362
Increase in defined benefit obligations	**119,247**	362,102
Increase in other non-current liabilities	**9,841**	569,256
Cash generated from operations	**7,675,228**	10,234,742
Finance income on the net investment in a finance lease received	**61,516**	74,256
Mainland China income tax paid	**(1,046,245)**	(1,104,211)
Overseas income tax paid	**(160,904)**	(108,105)
Net cash flows from operating activities	**6,529,595**	9,096,682

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received from associates		**3,837,503**	3,953,778
Purchases of items of property, plant and equipment		**(4,256,794)**	(7,150,966)
Proceeds from disposal of items of property, plant and equipment		**123,833**	125,763
Receipt of assets-relatd governments grants		**893,972**	772,969
Additions to prepaid land premiums		**–**	(27,602)
Additions to operating concessions		**(1,237,298)**	(120,826)
Additions to other intangible assets		**(72,224)**	(61,378)
Acquisition of subsidiaries	*43*	**821,298**	58,166
Increase in investments in joint ventures and associates		**(1,216,314)**	(2,888,871)
Decrease/(increase) in time deposits with maturity of more than three months when acquired		**(113,643)**	854,351
Decrease in restricted cash and pledged deposits		**2,639**	3,277
Dividend income of an equity investment at fair value through other comprehensive income received		**49,402**	48,740
Investment income of a financial asset at fair value through profit or loss received		**160,284**	249,624
Bank interest income received		**254,723**	235,922
Net cash flows used in investing activities		**(752,619)**	(3,947,053)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders of subsidiaries		**–**	3,181
New loans		**4,805,563**	7,681,893
Repayment of loans		**(1,913,743)**	(7,878,971)
Principal portion of lease payments	*17(b)*	**(288,530)**	–
Interest portion of lease payments	*17(b)*	**(45,573)**	–
Other interest paid		**(2,150,720)**	(1,988,560)
Dividends paid		**(1,426,120)**	(1,262,053)
Dividends paid to non-controlling equity holders of subsidiaries		**(311,310)**	(294,046)
Net cash flows used in financing activities		**(1,330,433)**	(3,738,556)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**4,446,543**	1,411,073
Cash and cash equivalents at beginning of year		**17,909,131**	16,959,763
Effect of foreign exchange rate changes, net		**(335,070)**	(461,705)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**22,020,604**	17,909,131
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits	*30*	**10,102,694**	9,623,477
Saving deposits placed in a financial institution (an associate of the Group)	*30*	**480,695**	464,658
Time deposits:			
Placed in banks	*30*	**9,200,602**	5,563,092
Placed in a financial institution (an associate of the Group)	*30*	**2,411,631**	2,324,252
Less: Restricted cash and pledged deposits	*30*	**(36,701)**	(39,983)
Cash and cash equivalents as stated in the consolidated statement of financial position		**22,158,921**	17,935,496
Less: Time deposits with maturity of more than three months when acquired		**(138,317)**	(26,365)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**22,020,604**	17,909,131

1. CORPORATE AND GROUP INFORMATION

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

During the year, the Company and its subsidiaries (collectively the "Group"), together with its joint ventures and associates, were involved in the following principal activities:

- the distribution and sale of piped natural gas and gas-related equipment, the provision of natural gas transmission, the surveying and plotting of underground construction projects, the installation of gas pipelines and related equipment and the provision of related repair and maintenance services in the mainland ("Mainland China") of the People's Republic of China (the "PRC")

- the production, distribution and sale of brewery products in Mainland China

- the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, sewage treatment, water treatment and distribution, and the provision of consultancy services and the licensing of technical know-how that is related to sewage treatment in Mainland China and certain overseas countries

- the solid waste treatment operation which comprises the construction and operation of solid waste incineration plants, waste treatment and the sale of electricity, steam and heat generated from waste incineration in Germany and Mainland China

The immediate holding company of the Company is Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI"), which is incorporated in the British Virgin Islands and, in the opinion of the directors of the Company, the ultimate holding company is 北京控股集團有限公司 ("Beijing Enterprises Group"), which is a state-owned enterprise established in the PRC and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality (the "Beijing Municipal Government").

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about principal subsidiaries

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

Company name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Beijing Gas Group Company Limited ("Beijing Gas")#	PRC/ Mainland China	Renminbi ("RMB") 5,883,767,802	–	100	Distribution and sale of piped gas and gas-related equipment
唐山市天然氣有限公司 ("Tangshan Gas")##	PRC/ Mainland China	RMB650,000,000	–	60	Distribution and sale of piped gas
北京燃氣平谷有限公司##	PRC/ Mainland China	RMB539,326,100	–	98.95	Distribution and sale of piped gas
北京燃氣懷柔有限公司##	PRC/ Mainland China	RMB323,280,000	–	99.54	Distribution and sale of piped gas
北京燕京啤酒投資有限公司 ("Yanjing Investment")###	PRC/ Mainland China	RMB3,409,828,000	–	79.77	Investment holding
Beijing Yanjing Brewery Company Limited ("Yanjing Brewery")*/##	PRC/ Mainland China	RMB2,818,539,341	–	45.79†	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan")^/##	PRC/ Mainland China	RMB250,000,000	–	22.93†	Production and sale of beer
燕京啤酒(包頭雪鹿)股份有限公司##	PRC/ Mainland China	RMB547,303,240	–	42.32†	Production and sale of beer
燕京啤酒(桂林漓泉)股份有限公司##	PRC/ Mainland China	RMB349,366,900	–	34.69†	Production and sale of beer
燕京啤酒(赤峰)有限責任公司##	PRC/ Mainland China	RMB577,120,000	–	43.16†	Production and sale of beer
新疆燕京啤酒有限公司##	PRC/ Mainland China	RMB683,650,000	–	45.79†	Production and sale of beer
燕京啤酒(衡陽)有限公司##	PRC/ Mainland China	RMB525,660,000	–	44.80†	Production and sale of beer
四川燕京啤酒有限公司##	PRC/ Mainland China	RMB480,000,000	–	45.79†	Production and sale of beer
廣東燕京啤酒有限公司##	PRC/ Mainland China	RMB809,882,100	–	58.23	Production and sale of beer
Beijing Enterprises Environment Group Limited ("BEEGL")Ω	Hong Kong	HK$2,227,563,951	1.16	49.23	Investment holding
西咸新區北控環保科技發展有限公司##	PRC/ Mainland China	RMB349,590,000	–	65	Solid waste treatment operation

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about principal subsidiaries *(Continued)*

Company name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
北京北控綠海能環保有限公司###	PRC/ Mainland China	RMB308,340,000	–	48.74†	Solid waste treatment operation
北京高安屯垃圾焚燒有限公司###	PRC/ Mainland China	RMB274,000,000	–	42.78†	Solid waste treatment operation
哈爾濱市雙琦環保資源利用有限公司###	PRC/ Mainland China	RMB240,000,000	–	39.38†	Solid waste treatment operation
EEW Holding GmbH ("EEW")	Germany	EUR76,996,700	–	100	Investment holding
EEW Energy from Waste Saarbrücken GmbH	Germany	EUR20,452,000	–	100	Solid waste treatment operation
EEW Energy from Waste Helmstedt GmbH	Germany	EUR1,000,000	–	100	Solid waste treatment operation
Talent Yield (Euro) Limited	British Virgin Islands	US$1	–	100	Issuer of guaranteed bonds
Top Luxury Investment Limited	British Virgin Islands	US$1	–	100	Issuer of guaranteed bonds
Talent Yield European Limited	British Virgin Islands	US$1	–	100	Issuer of guaranteed bonds
Mega Advance Investments Limited	British Virgin Islands	US$1	–	100	Issuer of guaranteed notes
Talent Yield Investments Limited	British Virgin Islands	US$1	–	100	Issuer of guaranteed notes
Beijing Gas Singapore Capital Corporation	British Virgin Islands	US$10	–	100	Issuer of guaranteed notes

\# This entity is registered as a wholly-foreign-owned entity under PRC law.

\## These entities are registered as limited liability companies under PRC law.

\### These entities are registered as Sino-foreign joint ventures under PRC law.

† These entities are accounted for as subsidiaries by virtue of the Company's control over them through non-wholly-owned subsidiaries.

* Shares of Yanjing Brewery are listed on the Shenzhen Stock Exchange.

^ Shares of Yanjing Huiquan are listed on the Shanghai Stock Exchange.

Ω Shares of BEEGL are listed on the Main Board of the Hong Kong Stock Exchange.

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

2. BASIS OF PRESENTATION

Despite that the Group had net current liabilities of HK$1.4 billion and capital commitments of approximately HK$5 billion as at 31 December 2019, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group's cash flow projection which takes into account, inter alia, the historical operating performance of the Group, unutilised banking facilities available to the Group and the following:

(a) the Company received term sheets from banks regarding new term loan facilities of HK$8 billion in total in February 2020; and

(b) the Company is considering raising funds through issuance of corporate bonds in 2020.

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

3.1 BASIS OF PREPARATION

The consolidated 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 investment properties, equity and fund investments which have 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 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company. 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.

3.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

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

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption, if any, as an adjustment to the opening balance of retained profits as at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessor

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

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

(a) *(Continued)*

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease arrangements as a lessee for various items of land, office premises, staff quarters, gas pipelines, plant and machinery and motor vehicles. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on the straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities as at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 January 2019 and were separately presented on the face of the consolidated statement of financial position.

The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the leases recognised in the consolidated statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately on the face of the consolidated statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 on 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities as at 1 January 2019

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

(a) *(Continued)*

As a lessee – Leases previously classified as operating leases *(Continued)*

Financial impact on 1 January 2019

The impact arising from the adoption of HKFRS 16 on 1 January 2019 was as follows:

	HK$'000
Assets	
Decrease in property, plant and equipment	(57,068)
Increase in right-of-use assets	2,096,000
Decrease in prepaid land premiums	(1,507,429)
Decrease in prepayments, other receivables and other assets	(1,418)
Increase in total assets	530,085
Liabilities	
Increase in lease liabilities	570,048
Decrease in other payables, accruals and contract liabilities	(39,963)
Increase in total liabilities	530,085

A reconciliation of the operating lease commitments as at 31 December 2018 to the lease liabilities as at 1 January 2019 is as follows:

	HK$'000
Operating lease commitments as at 31 December 2018 *(note 17(b))*	796,418
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(14,014)
	782,404
Weighted average incremental borrowing rate as at 1 January 2019	4.68%
Discounted operating lease commitments as at 1 January 2019	530,085
Add: Finance lease liabilities recognised and included in other payables, accruals and contract liabilities as at 31 December 2018	39,963
Lease liabilities as at 1 January 2019 *(note 17(b))*	570,048

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

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 *Financial Instruments* only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28 (2011) *Investments in Associates and Joint Ventures*, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 (2011) is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 *Income Taxes* (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any impact on the financial position or performance of the Group.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[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 HKAS 1 and HKAS 8	*Definition of Material*[1]

1 *Effective for annual periods beginning on or after 1 January 2020*

2 *Effective for annual periods beginning on or after 1 January 2021*

3 *No mandatory effective date yet determined but available for adoption*

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

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

(a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur 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) 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 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.

(c) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures and associates

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.

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

The Group's investments in joint ventures and associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of joint ventures and associates is included in 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 or associate, 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 ventures or associates are eliminated to the extent of the Group's investments in the joint ventures or associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of joint ventures or associates is included as part of the Group's investments in joint ventures or associates.

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

3.4 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 control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a holding company of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to a holding company of the Group.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

The Group measures its investment properties, equity and fund investments 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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.

Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repair 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 estimated residual value over its estimated useful life. The estimated useful lives of different categories of property, plant and equipment are as follows:

Buildings	10 to 50 years
Leasehold improvements	Over the lease terms or 5 to 10 years, whichever is the shorter
Gas pipelines	25 years
Gas metres	8 years
Other plant and machinery	5 to 20 years
Furniture, fixtures and office equipment	5 to 12 years
Motor vehicles	5 to 15 years

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

Construction in progress represents gas pipelines, buildings, structures, plant and machinery and other property, plant and equipment under construction or installation, construction materials (which include materials for construction projects and equipment that needs to be installed) and prepayments for large-scale equipment. Construction in progress is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019)

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 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 revenue or other income in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases. At the commencement date, the cost of the asset held under a finance lease is capitalised at the present value of the lease payments and related payments (including initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease, which is measured using the interest rate implicit in the lease. Subsequent to initial measurement, finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the lease.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessee (Continued)

(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:

Leasehold land	1 to 50 years
Buildings	1 to 47 years
Plant and machinery	3 to 20 years
Gas pipelines	20 years
Motor vehicles	6 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.

(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 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessee (Continued)

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

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

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on the straight-line basis over the lease term.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor, are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group, ensuring that the infrastructure meets 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.

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, 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for construction services under "Revenue recognition – Revenue from contracts with customers" below.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for solid waste treatment service contracts under "Revenue recognition – Revenue from contracts with customers" below. Costs relating to operating services are expensed in the period in which they are incurred.

Contractual obligations to restore the infrastructures 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 infrastructures it operates to a specified level of serviceability and/or (b) to restore the infrastructures 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 infrastructures, except for any upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible assets (other than goodwill)

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Operating concessions

Operating concessions represent the rights to operate a toll road and solid waste incineration plants, and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 15 to 30 years.

Customer contracts

Customer contracts represent the fair value of the economic benefits from several customer service agreements of the solid waste treatment operation at initial recognition. Amortisation is provided on the straight-line basis over the respective contract periods of 1 to 28 years.

Patents

Purchased patents are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 25 to 30 years.

Computer software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over its estimated useful life of 2 to 10 years.

Research and development costs

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

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

Impairment of non-financial assets

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

3.4 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 in those expense categories consistent with the function of the impaired asset.

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

Investments and other financial assets

Initial recognition and measurement

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

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

In order for a financial asset (debt instrument) to be classified and measured at amortised cost, 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Initial recognition and measurement (Continued)

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

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

(a) Financial assets at amortised cost (debt instruments)

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other 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 to be in default when contractual payments are past due, in general, over 2 to 3 years based on historical pattern and credit risk management practices of the Group. 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 that 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment (Continued)

(a) General approach *(Continued)*

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

(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 a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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

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

3.4 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 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 an 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.

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 or the weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. 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 and financial institutions, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

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:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, joint ventures and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, joint ventures and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Governments grants

Government grants are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with.

Where a grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where a 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

(a) Piped gas operation

Revenue from the sale of piped natural gas is recognised at the point in time when the gas is consumed by the customer, based on gas consumption derived from metre readings.

Revenue from the sale of gas-related equipment is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the gas-related equipment,

(b) Sale of brewery products

Revenue from the sale of brewery products is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the brewery products.

(c) Construction services

Contract revenue comprises (i) the agreed contract amounts and appropriate amounts from variation orders, claims and incentive payments in respect of construction services and (ii) construction revenue recognised under service concession arrangements. Revenue from the construction of solid waste incineration plants under the terms of service concession arrangements is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in a similar location.

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 construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration 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. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

(d) Solid waste treatment service contracts

Revenue from the sale of electricity, steam and heat which are produced during the solid waste incineration process is recognised at the point in time when the product is transferred to the customer, generally on delivery of electricity, steam and heat.

Revenue from the solid waste collection service is recognised at the point in time when the service has been rendered.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from other sources

(a) Rental income

Rental income is recognised on the straight-line basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

(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 and investment income

Dividend and investment income is recognised when the shareholders' or investors' right to receive payment has been established, it is probable that the economic benefits associated with the dividend and investment income will flow to the Group and the amount of the dividend and investment income 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 impairment of financial assets under the policy set out for "Investments and other financial assets – Impairment" above.

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).

Share-based payments

BEEGL, a subsidiary of the Group, operates a share option scheme for the granting of non-transferable options, for the purpose of providing incentives and rewards, to eligible participants who contribute to the success of the operations of BEEGL and its subsidiaries (the "BEEGL Group"). Employees (including directors of BEEGL) of the BEEGL 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 for grants is measured by reference to the fair value at the date at which they are granted. The fair value of share options granted by BEEGL is determined by external valuers using the Black-Scholes-Merton option pricing model.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

The cost of equity-settled transactions is recognised in profit or loss, together with a corresponding increase in the capital reserve, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. 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 BEEGL'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.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

Upon the exercise of share options, the resulting shares issued are recorded by BEEGL as its additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by BEEGL in its share premium account.

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Defined contribution schemes

The Group has joined a number of defined contribution pension schemes organised by certain provincial or municipal governments in the PRC and Germany for certain of its employees, the assets of which are held separately from those of the Group. Contributions are made based on a percentage of the eligible employees' salaries and are charged to profit or loss as they become payable, in accordance with the rules of the pension schemes. The employer contributions vest fully once made.

For those employees that have not yet joined a pension scheme, the Group has accrued for the estimated future pension costs based on a percentage of their salaries. The related assets for the purpose of discharging such liabilities are not separately held from those of the Group.

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

Defined benefit schemes

Certain employees of the Group can enjoy other retirement benefits after retirement such as supplementary medical reimbursement, allowance and beneficiary benefits pursuant to certain defined benefit plans of the Group. These benefits are unfunded. The costs of providing benefits under these defined benefit plans are determined using the projected unit credit method and are charged to profit or loss so as to spread the costs over the average service lives of the relevant employees in accordance with the actuarial report which contains valuation of the obligations for the year. These obligations are measured at the present value of the estimated future cash outflows. Actuarial gains and losses, which are remeasurements arising from defined benefit plans, are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to defined benefit plans reserve as other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

Defined benefit schemes (Continued)

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "administrative expenses" in profit or loss:

- service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements

- net interest expense or income

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 dollar, 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 differences 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).

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

The functional currencies of certain Mainland China and overseas subsidiaries, joint ventures and associates are currencies other than 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 and statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of the exchange fluctuation reserve relating to that particular foreign operation is recognised in profit or loss.

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

For the purpose of the consolidated statement of cash flows, the cash flows of 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 overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Dividends

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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 units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2019 was HK$16,332,072,000, details of which are set out in note 18 to the financial statements.

Estimates of gas consumption

Determination of the revenue generated from the distribution and sale of piped natural gas between the date of last metre reading and the year end involves an estimation of the gas supplied to customers for whom actual metre reading is not available. The estimation is done mainly based on the billed volume from the latest metre reading period, adjusted by the location and nature of customers.

The actual consumption could deviate from those estimates.

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

Control consideration in respect of an associate

The Group accounts for Beijing Enterprises Water Group Limited ("BE Water", an entity listed on the Hong Kong Stock Exchange and owned as to 41.13% by the Group as at 31 December 2019) as an associate. In determining whether the Group has control over BE Water, the Group has taken into account its effective influence it may exercise over the decisions of BE Water's board of directors, including the voting rights held by the Group, the structure of the board of directors and senior management of BE Water and the expertise of directors designated by other shareholders. In the opinion of the Company's directors, the Group did not have the sufficient ability to exercise power to control BE Water throughout the years ended 31 December 2019 and 2018 and BE Water was accounted for as an associate in the consolidated financial statements.

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

The carrying amounts of items of property, plant and equipment, right-of-use assets and other intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 3.4 to the financial statements. The recoverable amount is the higher of its fair value less costs of disposal and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows 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. The carrying amounts of property, plant and equipment, right-of-use assets and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2019 were HK$51,898,919,000, HK$2,839,886,000 and HK$7,157,587,000, respectively, details of which are set out in notes 15, 17(b), 19 and 20 to the financial statements.

5. OPERATING SEGMENT INFORMATION

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

(a) the piped gas operation segment engages in the distribution and sale of piped natural gas and gas-related equipment, the provision of natural gas transmission, the surveying and plotting of underground construction projects, and installation of gas pipelines and related equipment and the provision of related repair and maintenance services in Mainland China;

(b) the brewery operation segment produces, distributes and sells brewery products in Mainland China;

(c) the water and environmental operation segment engages in the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, sewage treatment, water treatment and distribution, and the provision of consultancy services and the licensing of technical know-how that is related to sewage treatment in Mainland China and certain overseas countries;

(d) the solid waste treatment operation segment engages in the construction and operation of waste incineration plants, waste treatment and the sale of electricity, steam and heat generated from waste incineration in Germany and Mainland China; and

(e) the corporate and others segment comprises consultation services, property investment and corporate income and expense items.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on the profit for the year of each reportable operating segment, 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.

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2019

	Piped gas operation HK$'000	Brewery operation HK$'000	Water and environmental operation HK$'000	Solid waste treatment operation HK$'000	Corporate and others HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Segment revenue *(note 6)*	47,517,770	11,826,321	–	8,438,937	–	–	67,783,028
Cost of sales	(42,699,589)	(8,010,183)	–	(6,127,119)	–	–	(56,836,891)
Gross profit	4,818,181	3,816,138	–	2,311,818	–	–	10,946,137
Profit/(loss) from operating activities	2,745,406	402,537	–	1,799,744	(167,969)	–	4,779,718
Finance costs	(372,147)	(21,565)	–	(174,222)	(1,627,034)	–	(2,194,968)
Share of profits and losses of:							
Joint ventures	28,810	–	–	–	–	–	28,810
Associates	4,888,992	26,185	2,026,934	40,307	–	–	6,982,418
Profit/(loss) before tax	7,291,061	407,157	2,026,934	1,665,829	(1,795,003)	–	9,595,978
Income tax	(437,085)	(184,686)	–	(395,207)	(5,391)	–	(1,022,369)
Profit/(loss) for the year	6,853,976	222,471	2,026,934	1,270,622	(1,800,394)	–	8,573,609
Segment profit/(loss) attributable to shareholders of the Company	6,873,408	1,073	2,026,934	953,794	(1,800,429)	–	8,054,780
Segment assets	110,776,401	21,273,476	13,028,341	34,142,062	13,696,288	(7,110,292)	185,806,276
Segment liabilities	34,577,988	6,994,699	–	17,356,966	46,972,088	(7,110,292)	98,791,449
Other segment information:							
Interest income	118,370	37,370	–	17,998	80,985	–	254,723
Finance income on the net investment in a finance lease	–	–	–	61,516	–	–	61,516
Depreciation of items of property, plant and equipment	1,961,728	902,886	–	717,537	10,390	–	3,592,541
Depreciation of right-of-use assets	107,276	37,890	–	49,606	4,126	–	198,898
Amortisation of operating concessions	–	–	–	131,863	–	–	131,863
Amortisation of other intangible assets	56,068	–	–	179,366	–	–	235,434
Impairment against segment assets, net*	53,091	78,392	–	168,658	386,998	–	687,139
Investments in joint ventures	321,039	–	–	–	6,652	–	327,691
Investments in associates	42,938,981	304,542	12,978,985	67,012	955,315	–	57,244,835
Capital expenditure**	2,729,022	652,288	–	2,369,841	71,051	–	5,822,202

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2018

	Piped gas operation *HK$'000*	Brewery operation *HK$'000*	Water and environmental operation *HK$'000*	Solid waste treatment operation *HK$'000*	Corporate and others *HK$'000*	Inter-segment elimination *HK$'000*	Consolidated *HK$'000*
Segment revenue *(note 6)*	48,648,824	12,366,723	–	6,749,223	–	–	67,764,770
Cost of sales	(43,509,373)	(8,623,462)	–	(5,068,270)	–	–	(57,201,105)
Gross profit	5,139,451	3,743,261	–	1,680,953	–	–	10,563,665
Profit/(loss) from operating activities	2,959,194	398,872	–	1,493,129	(437,731)	–	4,413,464
Finance costs	(310,143)	(14,879)	–	(149,540)	(1,503,182)	–	(1,977,744)
Share of profits and losses of:							
Joint ventures	(6,780)	–	–	65	–	–	(6,715)
Associates	4,705,596	25,718	1,897,158	37,974	–	–	6,666,446
Profit/(loss) before tax	7,347,867	409,711	1,897,158	1,381,628	(1,940,913)	–	9,095,451
Income tax	(483,341)	(187,781)	–	(417,471)	(70,217)	–	(1,158,810)
Profit/(loss) for the year	6,864,526	221,930	1,897,158	964,157	(2,011,130)	–	7,936,641
Segment profit/(loss) attributable to shareholders of the Company	6,833,039	13,425	1,897,158	697,344	(1,863,583)	–	7,577,383
Segment assets	101,546,818	20,854,542	11,272,105	32,975,497	15,759,422	(7,912,104)	174,496,280
Segment liabilities	31,508,724	6,399,511	–	16,225,400	47,259,377	(7,912,104)	93,480,908
Other segment information:							
Interest income	100,734	32,567	–	44,763	57,858	–	235,922
Finance income on the net investment in a finance lease	–	–	–	74,256	–	–	74,256
Depreciation of items of property, plant and equipment	1,800,217	1,013,253	–	680,734	6,260	–	3,500,464
Amortisation of prepaid land premiums	10,087	26,089	–	2,433	–	–	38,609
Amortisation of operating concessions	–	–	–	122,425	–	–	122,425
Amortisation of other intangible assets	51,064	–	–	237,631	–	–	288,695
Impairment against segment assets, net*	144,385	4,112	–	7,728	676,861	–	833,086
Investments in joint ventures	317,829	–	–	33,994	6,652	–	358,475
Investments in associates	40,842,071	294,353	11,223,509	82,551	933,091	–	53,375,575
Capital expenditure**	4,605,993	612,679	–	1,348,402	6,133	–	6,573,207

* *These amounts are recognised in the consolidated statement of profit or loss and included impairment/(reversal of impairment) against goodwill, items of property, plant and equipment, prepaid land premiums, operating concessions, investment in an investee, trade receivables and other receivables.*

** *Capital expenditure consists of additions to property, plant and equipment, investment properties, right-of-use assets, operating concessions and other intangible assets, excluding assets from the acquisition of subsidiaries.*

5. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

	2019	2018
	HK$'000	*HK$'000*
Mainland China	**62,463,119**	62,645,555
Germany	**5,319,909**	5,119,215
	67,783,028	67,764,770

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2019	2018
	HK$'000	*HK$'000*
Mainland China	**110,149,631**	104,261,483
Germany	**17,264,018**	17,733,699
Russian Federation ("Russia")	**9,278,849**	8,676,588
Elsewhere	**239,838**	202,687
	136,932,336	130,874,457

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

During each of the years ended 31 December 2019 and 2018, no single external customer contributed 10% or more of the Group's revenue.

6. REVENUE

Revenue of the Group for each of the years ended 31 December 2019 and 2018 was all revenue from contracts with customers and represented revenue generated from the piped gas operation, brewery operation and solid waste treatment operation.

(a) Disaggregated revenue information

Year ended 31 December 2019

Segments	Piped gas operation *HK$'000*	Brewery operation *HK$'000*	Solid waste treatment operation *HK$'000*	Total *HK$'000*
Type of goods or services				
Sale of piped natural gas	46,537,696	–	–	46,537,696
Sale of gas-related equipment	517,163	–	–	517,163
Sale of brewery products	–	11,826,321	–	11,826,321
Construction services	462,911	–	1,803,099	2,266,010
Solid waste collection services	–	–	4,541,691	4,541,691
Sale of electricity	–	–	2,067,956	2,067,956
Sale of steam and heat	–	–	26,191	26,191
Total revenue from contracts with customers	47,517,770	11,826,321	8,438,937	67,783,028
Geographical markets				
Mainland China	47,517,770	11,826,321	3,119,028	62,463,119
Germany	–	–	5,319,909	5,319,909
Total revenue from contracts with customers	47,517,770	11,826,321	8,438,937	67,783,028
Timing of revenue recognition				
Goods transferred at a point in time	47,054,859	11,826,321	2,094,147	60,975,327
Services transferred at a point in time	–	–	4,541,691	4,541,691
Services transferred over time	462,911	–	1,803,099	2,266,010
Total revenue from contracts with customers	47,517,770	11,826,321	8,438,937	67,783,028

6. REVENUE *(Continued)*

(a) Disaggregated revenue information *(Continued)*

Year ended 31 December 2018

Segments	Piped gas operation *HK$'000*	Brewery operation *HK$'000*	Solid waste treatment operation *HK$'000*	Total *HK$'000*
Type of goods or services				
Sale of piped natural gas	47,581,120	–	–	47,581,120
Sale of gas-related equipment	657,120	–	–	657,120
Sale of brewery products	–	12,366,723	–	12,366,723
Construction services	410,584	–	570,714	981,298
Solid waste collection services	–	–	4,321,963	4,321,963
Sale of electricity	–	–	1,846,299	1,846,299
Sale of steam and heat	–	–	10,247	10,247
Total revenue from contracts with customers	48,648,824	12,366,723	6,749,223	67,764,770
Geographical markets				
Mainland China	48,648,824	12,366,723	1,630,008	62,645,555
Germany	–	–	5,119,215	5,119,215
Total revenue from contracts with customers	48,648,824	12,366,723	6,749,223	67,764,770
Timing of revenue recognition				
Goods transferred at a point in time	48,238,240	12,366,723	1,856,546	62,461,509
Services transferred at a point in time	–	–	4,321,963	4,321,963
Services transferred over time	410,584	–	570,714	981,298
Total revenue from contracts with customers	48,648,824	12,366,723	6,749,223	67,764,770

6. REVENUE *(Continued)*

(b) Performance obligations

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

Piped gas operation

The performance obligation in respect of sale of piped natural gas is satisfied upon delivery of gas and payment is generally due within 10 days from the date of billing.

The performance obligation in respect of sale of gas-related equipment is satisfied upon delivery of gas-related equipment and payment is generally due within 30 days from delivery.

Sale of brewery products

The performance obligation is satisfied upon delivery of brewery products and payment is generally due within 30 days from delivery.

Construction services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 90 days from the date of billing.

Solid waste treatment services

The performance obligation in respect of sale of electricity, steam and heat is satisfied upon delivery of electricity, steam and heat and payment is generally due within 30 days from delivery.

The performance obligation in respect of solid waste collection service is satisfied at the point in time when the service is rendered and payment is generally due within 30 days from the date of solid waste collection.

7. OTHER INCOME AND GAINS, NET

	2019 *HK$'000*	2018 *HK$'000*
Other income		
Bank interest income	**254,723**	235,922
Finance income on the net investment in a finance lease	**61,516**	74,256
Rental income	**50,310**	43,864
Government grants*	**174,053**	175,050
Transfer of assets from customers *(note 15)*	**115,914**	–
Dividend income of an equity investment at fair value through other comprehensive income	**49,402**	48,740
Investment income of a financial asset at fair value through profit or loss	**160,284**	249,624
Others	**519,058**	521,368
	1,385,260	1,348,824
Gains, net		
Gain on disposal of items of property, plant and equipment, net	**2,240**	13,469
Foreign exchange differences, net	**–**	2,676
	2,240	16,145
Other income and gains, net	**1,387,500**	1,364,969

* *Government grants represented government subsidies and turnover tax refunds in respect of the Group's operations in Mainland China. Turnover tax includes value-added tax, city construction tax and education surcharge. The government grants are unconditional, except for certain grants that must be utilised for business development of the Company's subsidiaries.*

8. FINANCE COSTS

	Notes	2019 HK$'000	2018 HK$'000
Interest on bank loans and other loans		**1,049,473**	887,358
Interest on guaranteed bonds and notes		**1,101,247**	1,101,202
Interest on lease liabilities	*17(b)*	**45,573**	–
Total interest expenses		**2,196,293**	1,988,560
Increase in discounted amounts of provision for major overhauls arising from the passage of time	*37*	**1,815**	2,190
Total finance costs		**2,198,108**	1,990,750
Less: Interest capitalised in construction in progress		**(3,140)**	(13,006)
		2,194,968	1,977,744

9. PROFIT BEFORE TAX

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

	Notes	2019 HK$'000	2018 HK$'000
Cost of inventories sold*		**54,198,006**	55,505,615
Cost of services provided*		**2,340,908**	1,348,649
Depreciation of items of property, plant and equipment	*15*	**3,592,541**	3,500,464
Depreciation of right-of-use assets	*17(b)*	**198,898**	–
Amortisation of prepaid land premiums	*17(b)*	**–**	38,609
Amortisation of operating concessions*	*19*	**131,863**	122,425
Amortisation of other intangible assets**	*20*	**235,434**	288,695
Provision for major overhauls***	*37*	**21,508**	21,362
Research and development expenditure***		**268,120**	60,912
Minimum lease payments under operating leases		**–**	314,027
Lease payments not included in the measurement of lease liabilities	*17(b)*	**189,227**	–
Auditors' remuneration paid and payable to:			
Auditor of the Company		**10,700**	10,700
Auditor of an associate		**5,300**	4,500
Employee benefit expense *(including directors' remuneration – note 10)*:			
Salaries, allowances and benefits in kind		**6,727,330**	6,548,880
Net pension scheme contributions		**496,024**	645,317
Net benefit expense of defined benefit plans**	*36(a)*	**160,567**	396,912
		7,383,921	7,591,109
Less: Amount capitalised in construction in progress/operating concessions		**(51,712)**	(33,184)
		7,332,209	7,557,925
Foreign exchange differences, net		**28,245**	–
Impairment of non-current non-financial assets#		**538,711**	676,862
Impairment of financial assets, net:			
Impairment/(reversal of impairment) of trade receivables, net***	*26(d)*	**(56,825)**	85,298
Impairment of other receivables, net***	*27(c)*	**205,253**	70,926
		148,428	156,224
Direct operating expenses (including repair and maintenance) arising from rental-earning investment properties		**38,812**	36,956

9. PROFIT BEFORE TAX *(Continued)*

* *These items are included in "Cost of sales" on the face of the consolidated statement of profit or loss.*

** *These items are included in "Administrative expenses" on the face of the consolidated statement of profit or loss, except for amortisation of certain other intangible assets of HK$166,114,000 (2018: HK$224,416,000) that is included in "Cost of sales".*

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

This item is included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss and included impairment against goodwill, items of property, plant and equipment, prepaid land premiums, operating concessions and investment in an investee.

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Hong Kong 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:

	2019 HK$'000	2018 HK$'000
Fees	**1,350**	2,190
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**8,333**	14,967
Pension scheme contributions	**29**	29
	8,362	14,996
	9,712	17,186

10. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2019				
Executive directors:				
Mr. Hou Zibo	–	1,757	–	1,757
Mr. Li Yongcheng	–	1,452	–	1,452
Mr. Zhao Xiaodong	–	–	–	–
Mr. E Meng*	–	1,452	–	1,452
Mr. Jiang Xinhao	–	1,452	–	1,452
Mr. Tam Chun Fai	150	2,220	29	2,399
	150	8,333	29	8,512
Independent non-executive directors:				
Mr. Wu Jiesi	300	–	–	300
Mr. Lam Hoi Ham	300	–	–	300
Mr. Sze Chi Ching	300	–	–	300
Mr. Yu Sun Say	300	–	–	300
Mr. Ma She**	–	–	–	–
	1,200	–	–	1,200
Total directors' remuneration	1,350	8,333	29	9,712

* *Subsequent to the reporting period, Mr. E Meng resigned as an executive director and executive vice-president of the Company with effect from 3 January 2020.*

** *Subsequent to the reporting period, Mr. Ma She resigned as an independent non-executive director of the Company with effect from 21 January 2020.*

10. DIRECTORS' REMUNERATION *(Continued)*

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2018				
Executive directors:				
Mr. Hou Zibo	180	4,071	–	4,251
Mr. Li Yongcheng	180	2,587	–	2,767
Mr. Zhao Xiaodong	180	–	–	180
Mr. E Meng	150	3,125	–	3,275
Mr. Jiang Xinhao	150	3,005	–	3,155
Mr. Tam Chun Fai	150	2,179	29	2,358
	990	14,967	29	15,986
Independent non-executive directors:				
Mr. Wu Jiesi	300	–	–	300
Mr. Lam Hoi Ham	300	–	–	300
Mr. Sze Chi Ching	300	–	–	300
Mr. Yu Sun Say	300	–	–	300
Mr. Ma She	–	–	–	–
	1,200	–	–	1,200
Total directors' remuneration	2,190	14,967	29	17,186

Other than Mr. Ma She who waived his remuneration from the Company for the years ended 31 December 2019 and 2018 and Mr. Zhao Xiaodong who waived his remuneration from the Company for the year ended 31 December 2019, there was no agreement under which a director waived or agreed to waive any remuneration during these years.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2019 are neither a director nor chief executive of the Company and details of their remuneration for the year are as follows:

	2019 *HK$'000*
Salaries, allowances and benefits in kind	**25,389**
Pension scheme contributions	**1,309**
	26,698

The number of the five non-director and non-chief executive highest paid employees whose remuneration for the year ended 31 December 2019 fell within the following bands is as follows:

	Number of employees 2019
HK$2,500,001 to HK$3,000,000	**1**
HK$3,000,001 to HK$3,500,000	**1**
HK$5,500,001 to HK$6,000,000	**1**
HK$6,000,001 to HK$6,500,000	**1**
HK$8,500,001 to HK$9,000,000	**1**
	5

The five highest paid employees during the year ended 31 December 2018 are all directors of the Company, details of whose remuneration for that year are set out in note 10 to the financial statements.

12. INCOME TAX

	2019	2018
	HK$'000	*HK$'000*
Current:		
Hong Kong	**3,303**	9,651
Mainland China	**601,427**	893,045
Germany	**328,293**	404,690
Others	**48,603**	104,850
Deferred *(note 39)*	**40,743**	(253,426)
Total tax expense for the year	**1,022,369**	1,158,810

Notes:

(a) Applicable income tax rates

A summary of applicable income tax rates of the jurisdictions in which the Group has operations during the year is as follows:

	2019	2018
	%	*%*
Hong Kong	**16.5**	16.5
Mainland China*	**25**	25
Germany	**30**	30

* *In accordance with the relevant tax rates and regulations of the PRC, certain of the Company's subsidiaries established in Mainland China enjoy PRC corporate income tax exemptions and reductions.*

12. INCOME TAX *(Continued)*

Notes: (Continued)

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

Year ended 31 December 2019

	Hong Kong		Mainland China		Germany		Others		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	2,679,738		4,633,084		1,113,856		1,169,300		9,595,978	
Tax expense at the statutory tax rate	442,162	16.5	1,158,271	25.0	334,157	30.0	233,860	20.0	2,168,450	22.6
Lower tax rate for specific provinces or enacted by local authority	–	–	(632,397)	(13.6)	–	–	–	–	(632,397)	(6.6)
Effect of withholding tax on distributable profit	1,511	0.1	1,904	0.0	–	–	48,603	4.2	52,018	0.5
Adjustments in respect of current tax of previous periods	–	–	–	–	(63,750)	(5.7)	–	–	(63,750)	(0.7)
Profits and losses attributable to joint ventures and associates	(739,556)	(27.6)	(217,933)	(4.7)	–	–	(233,860)	(20.0)	(1,191,349)	(12.4)
Income not subject to tax	(14,455)	(0.5)	(48,847)	(1.1)	(15,733)	(1.4)	–	–	(79,035)	(0.8)
Expenses not deductible for tax	308,767	11.5	192,665	4.2	22,678	2.0	–	–	524,110	5.5
Tax losses not recognised as deferred tax assets	4,874	0.2	238,542	5.1	906	0.1	–	–	244,322	2.5
Tax expense at the Group's effective tax rate	3,303	0.1	692,205	14.9	278,258	25.0	48,603	4.2	1,022,369	10.7

12. INCOME TAX *(Continued)*

Notes: *(Continued)*

(b) *(Continued)*

Year ended 31 December 2018

	Hong Kong		Mainland China		Germany		Others		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	2,481,898		4,242,368		1,015,465		1,355,720		9,095,451	
Tax expense at the statutory tax rate	409,513	16.5	1,060,592	25.0	304,640	30.0	271,144	20.0	2,045,889	22.5
Lower tax rate for specific provinces or enacted by local authority	–	–	(697,860)	(16.4)	–	–	–	–	(697,860)	(7.7)
Effect of withholding tax on distributable profit	1,603	0.1	1,920	0.0	–	–	104,850	7.7	108,373	1.2
Profits and losses attributable to joint ventures and associates	(683,525)	(27.5)	(197,190)	(4.6)	–	–	(271,144)	(20.0)	(1,151,859)	(12.7)
Income not subject to tax	(37,586)	(1.5)	(66,722)	(1.6)	(8,704)	(0.9)	–	–	(113,012)	(1.2)
Expenses not deductible for tax	319,646	12.8	323,282	7.6	78,145	7.7	–	–	721,073	7.9
Tax losses not recognised as deferred tax assets	–	–	246,076	5.8	130	0.0	–	–	246,206	2.7
Tax expense at the Group's effective tax rate	9,651	0.4	670,098	15.8	374,211	36.8	104,850	7.7	1,158,810	12.7

(c) The share of tax attributable to joint ventures and associates amounting to HK$4,588,000 (2018: HK$80,000) and HK$2,180,628,000 (2018: HK$1,809,454,000), respectively, is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

13. DIVIDENDS

	2019	2018
	HK$'000	*HK$'000*
Interim – HK$0.40 (2018: HK$0.32) per ordinary share	**504,821**	403,857
Proposed final – HK$0.74 (2018: HK$0.73) per ordinary share	**933,919**	921,299
	1,438,740	1,325,156

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

14. 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 of HK$8,054,780,000 (2018: HK$7,577,383,000), and the weighted average number of ordinary shares of 1,262,053,268 (2018: 1,262,053,268) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for each of the years ended 31 December 2019 and 2018 for a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

15. PROPERTY, PLANT AND EQUIPMENT

	Notes	Buildings HK$'000 (note (a))	Leasehold improve-ments HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 (note (b))	Total HK$'000
Year ended 31 December 2019									
At 1 January 2019 (restated):									
Cost		16,236,423	167,723	24,391,726	35,939,094	1,379,372	903,039	6,737,072	85,754,449
Accumulated depreciation and impairment		(4,640,711)	(21,771)	(6,645,144)	(21,010,493)	(958,778)	(548,652)	(268,405)	(34,093,954)
Net carrying amount		11,595,712	145,952	17,746,582	14,928,601	420,594	354,387	6,468,667	51,660,495
Net carrying amount:									
At 1 January 2019 (previously reported)		11,595,712	203,020	17,746,582	14,928,601	420,594	354,387	6,468,667	51,717,563
Effect of adoption of HKFRS 16	3.2(a)	–	(57,068)	–	–	–	–	–	(57,068)
At 1 January 2019 (restated)		11,595,712	145,952	17,746,582	14,928,601	420,594	354,387	6,468,667	51,660,495
Acquisition of subsidiaries	43	181,912	–	99,639	48,470	247,996	5,265	401,173	984,455
Additions		116,354	29,919	132,621	549,256	86,691	85,299	3,259,794	4,259,934
Actual cost adjustment		(485,227)	–	(250,373)	843,589	1,558	2,019	–	111,566
Transfer of assets from customers	7	–	–	30,238	85,676	–	–	–	115,914
Transfer from construction in progress		393,195	–	1,207,481	1,727,461	77,656	6,317	(3,412,110)	–
Depreciation provided during the year	9	(358,956)	(5,494)	(1,330,696)	(1,733,866)	(94,712)	(68,817)	–	(3,592,541)
Disposals		(9,366)	–	(15,894)	(35,658)	(1,257)	(4,204)	(55,214)	(121,593)
Offsetting government grants		(18,226)	–	(555,598)	–	(11,214)	–	–	(585,038)
Exchange realignment		(198,200)	(4,200)	(273,729)	(316,063)	(16,706)	(5,958)	(119,417)	(934,273)
At 31 December 2019		11,217,198	166,177	16,790,271	16,097,466	710,606	374,308	6,542,893	51,898,919
At 31 December 2019:									
Cost		16,149,051	193,186	24,698,788	38,019,257	1,723,373	939,177	6,807,249	88,530,081
Accumulated depreciation and impairment		(4,931,853)	(27,009)	(7,908,517)	(21,921,791)	(1,012,767)	(564,869)	(264,356)	(36,631,162)
Net carrying amount		11,217,198	166,177	16,790,271	16,097,466	710,606	374,308	6,542,893	51,898,919

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

	Note	Buildings HK$'000 (note (a))	Leasehold improve-ments HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 (note (b))	Total HK$'000
Year ended 31 December 2018									
At 1 January 2018:									
Cost		16,381,071	441,119	21,459,288	35,472,172	1,362,807	861,742	8,373,073	84,351,272
Accumulated depreciation and impairment		(4,328,504)	(225,684)	(5,883,809)	(20,454,692)	(924,291)	(526,039)	(279,437)	(32,622,456)
Net carrying amount		12,052,567	215,435	15,575,479	15,017,480	438,516	335,703	8,093,636	51,728,816
Net carrying amount:									
At 1 January 2018		12,052,567	215,435	15,575,479	15,017,480	438,516	335,703	8,093,636	51,728,816
Additions		15,722	3,607	122,490	513,381	82,471	100,309	5,553,023	6,391,003
Transfer from construction in progress		566,152	–	3,844,273	1,863,394	25,548	13,057	(6,312,424)	–
Depreciation provided during the year	9	(518,234)	(7,090)	(1,034,539)	(1,760,571)	(104,089)	(75,941)	–	(3,500,464)
Impairment provided during the year		–	–	–	(497)	–	–	(600,111)	(600,608)
Disposals		(20,070)	(132)	(553)	(58,288)	(3,894)	(3,651)	(25,706)	(112,294)
Exchange realignment		(500,425)	(8,800)	(760,568)	(646,298)	(17,958)	(15,090)	(239,751)	(2,188,890)
At 31 December 2018		11,595,712	203,020	17,746,582	14,928,601	420,594	354,387	6,468,667	51,717,563
At 31 December 2018:									
Cost		16,236,423	426,625	24,391,726	35,939,094	1,379,372	903,039	6,737,072	86,013,351
Accumulated depreciation and impairment		(4,640,711)	(223,605)	(6,645,144)	(21,010,493)	(958,778)	(548,652)	(268,405)	(34,295,788)
Net carrying amount		11,595,712	203,020	17,746,582	14,928,601	420,594	354,387	6,468,667	51,717,563

Notes:

(a) At 31 December 2019, the building in relation to a solid waste incineration plant of the Group situated in Mainland China with a net carrying amount of HK$45,322,000 (2018: HK$48,687,000) were pledged to secure a bank loan granted to the Group (note 34(c)).

(b) During the year ended 31 December 2018, an impairment of HK$600,111,000 was recognised against a solid waste incineration plant, which was under construction and had a then gross carrying amount before impairment of HK$903,855,000, since the construction of the plant was suspended upon the request of a local government. In the opinion of the directors, the recoverable amount of the solid waste incineration plant was not significant.

16. INVESTMENT PROPERTIES

	2019	2018
	HK$'000	*HK$'000*
Carrying amount as at 1 January	**1,147,395**	1,184,287
Exchange realignment	**(16,049)**	(36,892)
Carrying amount as at 31 December	**1,131,346**	1,147,395

Notes:

(a) The investment properties are office buildings or premises and are leased to third parties under operating leases, further summary details of which are included in note 17(a) to the financial statements.

(b) Each year, the Group's chief financial officer decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group holds discussion with valuers on the valuation assumptions and valuation results once a year when the valuation is performed for the purpose of annual financial reporting.

At 31 December 2019, the investment properties were revalued based on valuations performed by Cushman & Wakefield, independent professionally qualified valuers, using the investment method and direct comparison method. No fair value gain or loss was recognised on the Group's investment properties during the year ended 31 December 2019 (2018: Nil) as there were no material changes in the fair value of these properties when compared to those as at 31 December 2018.

The fair values of all the Group's investment properties were revalued using significant unobservable inputs (Level 3 fair value measurement). During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil). The definitions of Level 1, Level 2 and Level 3 are explained under the policy set out for "Fair value measurement" in note 3.4 to the financial statements.

16. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Set out below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

Type of properties	Valuation techniques*	Significant unobservable inputs	Range 2019	Range 2018
Office buildings or premises	Investment method and direct comparison method	Estimated rental value per square metre and per month (HK$)	**74 to 374**	75 to 380
		Capitalisation rate	**6.75% to 7.75%**	6.75% to 7.75%
		Price per square metre (HK$)	**10,009 to 57,940**	10,169 to 56,129

* *Valuations were based on either the investment method by capitalisation of net rental income derived from the existing tenancies with provisions for reversionary rental income potential or the direct comparison method by reference to comparable market transactions.*

A significant increase (decrease) in the estimated rental value or price per square metre in isolation would result in a significantly higher (lower) fair value of the investment properties. A significant increase (decrease) in the capitalisation rate in isolation would result in a significantly lower (higher) fair value of the investment properties.

Generally, a change in the assumption made for the price per square metre is accompanied by a directionally similar change in estimated rental value per square metre and per month and an opposite change in the capitalisation rate.

17. LEASES

(a) The Group as a lessor

Finance lease receivable under a finance lease

One of the Group's solid waste incineration plants in Germany is leased out under a finance lease arrangement, which has a remaining lease term of 4.5 years (2018: 5.5 years).

At 31 December 2019, the maturity analysis of the undiscounted lease payments receivable by the Group in future periods in respect of the finance lease and their present values is as follows:

	Minimum lease payments		**Present value of minimum lease payments**	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts receivable:				
Within one year	**138,872**	142,849	**134,483**	138,334
After one year but within two years	**138,872**	142,849	**125,416**	129,008
After two years but within three years	**138,872**	142,849	**116,960**	120,310
After three years but within four years	**138,872**	142,849	**109,076**	112,200
After four years but within five years	**464,526**	142,848	**337,068**	104,635
After five years	**–**	477,828	**–**	323,345
Total minimum finance lease receivables	**1,020,014**	1,192,072	**823,003**	927,832
Less: Unearned finance income	**(197,011)**	(264,240)		
Total net receivable under a finance lease	**823,003**	927,832		
Portion classified as current assets	**(84,707)**	(81,260)		
Non-current portion	**738,296**	846,572		

The Group provides for the lifetime ECL for the receivable under a finance lease based on the credit rating of the lessee. Based on historical data and management's analysis, the loss on collection was not material and hence no provision for ECL was considered necessary.

17. LEASES *(Continued)*

(a) The Group as a lessor *(Continued)*

Operating leases

The Group leases its investment properties (note 16) consisting of office buildings or premises in the PRC to third parties under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits. Rental income recognised by the Group during the year was HK$50,310,000 (2018: HK$43,864,000), details of which are included in note 7 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019	2018
	HK$'000	*HK$'000*
Within one year	**76,748**	48,494
After one year but within two years	**45,501**	43,265
After two years but within three years	**15,728**	27,657
After three years but within four years	**–**	6,048
Total	**137,977**	125,464

17. LEASES *(Continued)*

(b) The Group as a lessee

The Group has lease arrangements as a lessee for various items of land, office premises, staff quarters, plant and machinery, gas pipelines and motor vehicles for use in its operations. These lease arrangements generally have the following lease terms:

Leasehold land	1 to 50 years
Office premises	1 to 47 years
Plant and machinery	3 to 20 years
Gas pipelines	20 years
Motor vehicles	6 years

Lump sum payments were made upfront to acquire the leased land from the owners, and no ongoing payments will be made under the terms of these land leases. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension options, which are further discussed below.

Prepaid land premiums (applicable before 1 January 2019)

	HK$'000
At 1 January 2018	1,661,025
Additions	27,602
Amortisation provided during the year *(note 9)*	(38,609)
Impairment provided during the year *(note)*	(76,254)
Exchange realignment	(66,335)
At 31 December 2018	1,507,429
Portion classified as current assets	(38,342)
Non-current portion	1,469,087

Note: The construction of a solid waste incineration plant was suspended upon the request of a local government in Mainland China, accordingly, an impairment loss of HK$76,254,000 was recognised in profit or loss during the year ended 31 December 2018 against the related land use right of the solid waste incineration project.

17. LEASES *(Continued)*

(b) The Group as a lessee *(Continued)*

Right-of-use assets (applicable after 1 January 2019)

The carrying amounts of the Group's right-of-use assets and the movements during the year ended 31 December 2019 are as follows:

	Notes	Leasehold Land HK$'000	Office premises HK$'000	Plant and machinery HK$'000	Gas pipelines HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2019	*3.2(a)*	1,507,429	531,503	57,068	–	–	2,096,000
Acquisition of subsidiaries	*43*	–	–	–	751,948	–	751,948
Additions		45,390	170,355	22,908	–	14,093	252,746
Depreciation provided during the year	*9*	(30,606)	(111,258)	(9,279)	(42,581)	(5,174)	(198,898)
Exchange realignment		(22,665)	(11,858)	(1,445)	(25,703)	(239)	(61,910)
At 31 December 2019		1,499,548	578,742	69,252	683,664	8,680	2,839,886

Lease liabilities (applicable after 1 January 2019)

The carrying amount of the Group's lease liabilities and the movements during the year ended 31 December 2019 are as follows:

	Notes	HK$'000
At 1 January 2019	*3.2(a)*	570,048
New leases		252,746
Acquisition of subsidiaries	*43*	339,182
Accretion of interest recognised during the year	*8*	45,573
Payments		(334,103)
Exchange realignment		(24,429)
At 31 December 2019		849,017
Portion classified as current liabilities		(164,738)
Non-current portion		684,279

The maturity analysis of lease liabilities is disclosed in note 49 to the financial statements.

17. LEASES *(Continued)*

(b) The Group as a lessee *(Continued)*

Extension options (applicable after 1 January 2019)

The Group has several lease contracts that include extension options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and they are aligned with the Group's business needs. Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension options that are not included in the lease terms:

2019

	Payable within five years *HK$'000*	Payable after five years *HK$'000*	Total *HK$'000*
Extension options expected not to be exercised	**26,090**	**5,347**	**31,437**

Other lease information (applicable after 1 January 2019)

The amounts recognised in profit or loss for the year ended 31 December 2019 in relation to leases are as follows:

	2019 *HK$'000*
Interest on lease liabilities	**45,573**
Depreciation of right-of-use assets	**198,898**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales, administrative expenses and other operating expenses)	**177,592**
Expense relating to leases of low-value assets (included in administrative expenses)	**11,635**
Total amount recognised in profit or loss	**433,698**

The total cash outflow for leases is disclosed in note 44(c) to the financial statements.

17. LEASES *(Continued)*

(b) The Group as a lessee *(Continued)*

Operating lease commitments as at 31 December 2018 (applicable before 1 January 2019)

The Group leased certain of its land, office premises, staff quarters, plant and machinery, and motor vehicles under operating lease arrangements, with leases negotiated with original terms ranging from 1 to 39 years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 *HK$'000*
Within one year	110,097
In the second to fifth years, inclusive	149,432
After five years	536,889
Total	796,418

18. GOODWILL

	2019 ***HK$'000***	2018 *HK$'000*
Cost and net carrying amount:		
At 1 January	**16,553,016**	16,910,280
Net carrying amount:		
At 1 January	**16,553,016**	16,910,280
Acquisition of subsidiaries *(note 43)*	**84,735**	–
Impairment provided during the year	**(81,118)**	–
Exchange realignment	**(224,561)**	(357,264)
At 31 December	**16,332,072**	16,553,016
At 31 December:		
Cost	**16,412,279**	16,553,016
Accumulated impairment	**(80,207)**	–
Net carrying amount	**16,332,072**	16,553,016

18. GOODWILL *(Continued)*

Impairment testing of goodwill

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

	Notes	**2019** **HK$'000**	2018 HK$'000
Piped gas operation	*(i)*	**7,079,157**	6,997,791
Brewery operation	*(ii)*	**373,892**	461,356
Solid waste treatment operation	*(iii)*	**8,827,484**	9,040,252
Others		**51,539**	53,617
		16,332,072	16,553,016

Notes:

(i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by an independent professionally qualified valuer based on a value-in-use calculation using cash flow projection which is based on a financial forecast approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projection is 9.1% (2018: 9.5%), which is determined by reference to the average rate for a similar industry and the business risk of the relevant business unit. A growth rate of 3% (2018: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors of the Company, no impairment provision was considered necessary for the goodwill attributable to the piped gas operation as at 31 December 2019 (2018: Nil).

(ii) Goodwill attributable to the brewery operation mainly arose from the Group's investment in Yanjing Brewery and from the acquisition of certain subsidiaries in prior years. The recoverable amount of the investment in Yanjing Brewery was determined based on the fair value less costs of disposal by reference to the market value of the shares of Yanjing Brewery held by the Group (Level 1 fair value measurement) as at 31 December 2019 (2018: Level 1 fair value measurement). The recoverable amount of each of the investments in other subsidiaries was determined by reference to a valuation prepared by an independent professionally qualified valuer on the value-in-use basis using cash flow projections of individual entities which are based on financial forecasts approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually.

Based on the results of the impairment testing of goodwill, in the opinion of the directors of the Company, an impairment provision of HK$81,118,000 (2018: Nil) against the goodwill attributable to the brewery operation was considered necessary which was charged to profit or loss for the year ended 31 December 2019.

18. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Notes: (Continued)

(iii) Goodwill attributable to the solid waste treatment operation mainly arose from the Group's investments in EEW and M+E Holding GmbH & Co. KG (the "EEW Group") and Golden State Waste Management Corporation ("GSWM"), which were acquired by the Group in prior years.

The recoverable amount of the solid waste treatment operation of the EEW Group has been determined by reference to a business valuation performed by an independent professionally qualified valuer on the value-in-use basis using cash flow projection which is based on a financial forecast approved by the senior management covering a period of five years. The financial forecast of the EEW Group was based on, inter alia, the assumptions that the scale of the operations remains constant perpetually and the operations can generate cash flows perpetually from the related solid waste treatment projects. The discount rate applied to the cash flow projection is 5.7% (2018: 6.5%), which is determined by reference to the average rate for a similar industry and the business risk of the relevant business units. A growth rate of 1% (2018: 2%) is used for the perpetual period.

The recoverable amount of the solid waste treatment operation of GSWM has been determined on the value-in-use basis using cash flow projection which is based on a financial forecast prepared by management covering the service concession periods of the relevant solid waste treatment projects. The financial forecast of GSWM was based on, inter alia, the assumptions that the scale of the operations remains constant perpetually and the operations can generate cash flows perpetually from the relevant solid waste treatment projects. The discount rate applied to the cash flow projection is 11.19% (2018: 11.1%), which is determined by reference to the average rate for a similar industry and the business risk of the relevant business units. A growth rate of 3% (2018: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors of the Company, no impairment provision was considered necessary for the goodwill attributable to the solid waste treatment operation as at 31 December 2019 (2018: Nil).

Key assumptions used in value-in-use calculations

The following describes each key assumption adopted by management in the preparation of the cash flow projections for the purpose of impairment testing of goodwill:

Piped gas operation

(i) Budgeted revenue
The budgeted revenue is based on the projected piped gas sales volume.

(ii) Budgeted gross margins
In respect of the relevant business units in the piped gas operation segment, the budgeted gross margins are based on the latest selling price of gas up to the date of the valuation report.

(iii) Discount rate
The discount rate used is before tax and reflects specific risks relating to the piped gas operation.

18. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in value-in-use calculations (Continued)

Piped gas operation *(Continued)*

(iv) Business environment

– There will be no major changes in the existing political, legal and economic conditions in Mainland China and other locations in which the assessed entity carried on its business.

– The gas supply network has already been set up in most urban areas in Beijing where majority of the Group's piped gas operation is located. A high degree of unique features of the gas supply business and high construction and fixed costs in establishing alternative gas supply network in urban districts in Beijing create an exceptionally high entry barrier for other operators to enter into these regions. Therefore, in the opinion of the directors of the Company, the Group's piped gas operation can generate income perpetually.

Solid waste treatment operation

(i) Budgeted revenue

The budgeted revenue is based on the projected solid waste treatment volume and the latest service fees of solid waste collection and selling prices of electricity, steam and heat up to the date of the forecast.

(ii) 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, having adjusted for expected efficiency improvements, and expected market development.

(iii) Discount rates

The discount rates used are before tax and reflect specific risks relating to the relevant units.

(iv) Business environment

There will be no major changes in the existing political, legal and economic conditions in Germany and Mainland China.

19. SERVICE CONCESSION ARRANGEMENTS

The Group operates a number of service concession arrangements with governmental authorities in Mainland China on a BOT or a Transfer-Operate-Transfer ("TOT") basis in respect of solid waste treatment operations. These service concession arrangements generally involve the Group as an operator (i) constructing the infrastructures for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the infrastructures 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"). The Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to, where appropriate, use all the property, plant and equipment of the infrastructures, however, the relevant governmental authorities as grantors will control and regulate the scope of services the Group must provide with the infrastructures, and retain the beneficial entitlement to any residual interest in the infrastructures 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 Group and the relevant governmental authorities 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 infrastructures to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes. The accounting policies in respect of the classification of the service concession arrangements between intangible assets (operating concessions) and financial assets (receivables under service concession arrangements) are set out under the heading of "Service concession arrangements" in note 3.4 to the financial statements.

19. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

The following is the summarised information of the Group's service concession arrangements:

Operating concessions

	2019	2018
	HK$'000	*HK$'000*
At 1 January:		
Cost	**3,961,393**	4,929,419
Accumulated amortisation and impairment	**(980,243)**	(1,810,778)
Net carrying amount	**2,981,150**	3,118,641
Net carrying amount:		
At 1 January	**2,981,150**	3,118,641
Additions	**1,237,298**	120,826
Actual cost adjustment	**(83,552)**	–
Amortisation provided during the year *(note 9)*	**(131,863)**	(122,425)
Impairment provided during the year *(note (c))*	**(158,889)**	–
Exchange realignment	**(60,316)**	(135,892)
At 31 December	**3,783,828**	2,981,150
At 31 December:		
Cost	**4,885,807**	3,961,393
Accumulated amortisation and impairment	**(1,101,979)**	(980,243)
Net carrying amount	**3,783,828**	2,981,150

19. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2019	2018
	HK$'000	*HK$'000*
Receivables under service concession arrangements attributable to solid waste treatment operations *(notes (a) and (b))*	**2,477,807**	1,931,397
Portion classified as current assets	**(97,552)**	(123,605)
Non-current portion	**2,380,255**	1,807,792

Notes:

(a) The operating concessions of the Group are mainly attributable to solid waste treatment operations.

At 31 December 2019, the Group had 12 (2018: 9) service concession arrangements on solid waste treatment with certain governmental authorities in Mainland China, of which 3 (2018: 1) solid waste treatment operation concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) with an aggregate net carrying amount of HK$2,131,394,000 (2018: HK$370,096,000) were pledged to secure certain bank loans granted to the Group (note 34(c)).

(b) In respect of the Group's receivables under service concession arrangements, settlement of such receivables is closely monitored in order to minimise any credit risk associated with the receivables.

The Group provides for lifetime ECL for receivables under service concession arrangements, based on the credit rating of the debtors. Based on historical data and management's analysis, the loss on collection was not material and hence no provision for ECL against the receivables under service concession arrangements as at 31 December 2019 was considered necessary (2018: Nil).

(c) The impairment loss recognised during the year ended 31 December 2019 against operating concessions related to (i) a solid waste incineration plant in Changde, the PRC which was forced to suspend from operations under the instruction of the local government due to the failure to meet relevant PRC environmental and air pollutant emission standards; and (ii) another solid waste incineration plant in Ha'erbin, the PRC, which has been underperforming due to extreme cold weather in winter. Impairment assessments have been performed with respect to the operating concessions of the two solid waste incineration plants and their recoverable amounts were determined based on (i) the latest negotiation of the compensation plan which has not been finalised with the local government as at the date of approval of these financial statements; and (ii) a valuation performed by an independent professional valuer on the value-in-use basis using cash flow projection based on a financial forecast approved by the senior management and discounted at a pre-tax discount rate of 11.13%.

19. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Notes: (Continued)

(d) Details of contract assets attributable to service concession arrangements at the end of the reporting period are as follows:

	31 December 2019 *HK$'000*	31 December 2018 *HK$'000*	1 January 2018 *HK$'000*
Contract assets included in:			
Operating concessions	**1,286,977**	437,902	850,042
Receivables under service concession arrangements	**305,576**	80,374	781,247
Total contract assets	**1,592,553**	518,276	1,631,289

Contract assets are initially recognised for revenue earned from the provision of construction services for solid waste incineration plants during the period of construction under the service concession arrangements. Pursuant to the service concession agreements, the Group receives no payment from grantors during the construction period and receives service fees when relevant solid waste collection service is rendered. The receivables under service concession arrangement (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 26). The increase in contract assets as at 31 December 2019 was the result of the increase in the ongoing service concession arrangements in the initial construction stage and more unbilled amounts were noted. The Group's trading terms and credit policy with customers are disclosed in note 26 to the financial statements.

20. OTHER INTANGIBLE ASSETS

	Notes	Customer contracts HK$'000	Operating concessions HK$'000	Patents HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2019						
At 1 January 2019:						
Cost		3,633,162	72,765	51,051	542,145	4,299,123
Accumulated amortisation		(674,022)	(20,448)	(6,643)	(325,814)	(1,026,927)
Net carrying amount		2,959,140	52,317	44,408	216,331	3,272,196
Net carrying amount:						
At 1 January 2019		2,959,140	52,317	44,408	216,331	3,272,196
Additions		–	–	–	72,224	72,224
Acquisition of subsidiaries	43	–	358,646	–	–	358,646
Amortisation provided during the year	9	(166,114)	(13,050)	(2,002)	(54,268)	(235,434)
Exchange realignment		(76,531)	(13,568)	(235)	(3,539)	(93,873)
At 31 December 2019		2,716,495	384,345	42,171	230,748	3,373,759
At 31 December 2019:						
Cost		3,533,422	419,322	51,051	604,797	4,608,592
Accumulated amortisation		(816,927)	(34,977)	(8,880)	(374,049)	(1,234,833)
Net carrying amount		2,716,495	384,345	42,171	230,748	3,373,759

20. OTHER INTANGIBLE ASSETS *(Continued)*

	Note	Customer contracts HK$'000	Operating concessions HK$'000	Patents HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2018						
At 1 January 2018:						
Cost		3,776,452	70,768	51,051	509,973	4,408,244
Accumulated amortisation		(476,213)	(10,989)	(3,308)	(280,107)	(770,617)
Net carrying amount		3,300,239	59,779	47,743	229,866	3,637,627
Net carrying amount:						
At 1 January 2018		3,300,239	59,779	47,743	229,866	3,637,627
Additions		–	–	–	61,378	61,378
Amortisation provided during the year	9	(224,416)	(5,030)	(2,044)	(57,205)	(288,695)
Exchange realignment		(116,683)	(2,432)	(1,291)	(17,708)	(138,114)
At 31 December 2018		2,959,140	52,317	44,408	216,331	3,272,196
At 31 December 2018:						
Cost		3,633,162	72,765	51,051	542,145	4,299,123
Accumulated amortisation		(674,022)	(20,448)	(6,643)	(325,814)	(1,026,927)
Net carrying amount		2,959,140	52,317	44,408	216,331	3,272,196

21. INVESTMENTS IN JOINT VENTURES

	2019 HK$'000	2018 HK$'000
Share of net assets	**327,691**	358,475

All joint ventures of the Group are not individually material.

22. INVESTMENTS IN ASSOCIATES

	Notes	2019 HK$'000	2018 HK$'000
Share of net assets	*(b), (c)*	**46,575,985**	42,399,066
Goodwill on acquisition, net of impairment	*(b), (c)*	**10,668,850**	10,976,509
		57,244,835	53,375,575

22. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes:

(a) Particulars of the material associates, which are all indirectly held by the Company, are as follows:

Company name	Place of incorporation/ registration and business	Particulars of issued capital held	Percentage of Ownership interest attributable to the Group	Percentage of Voting power	Percentage of Profit sharing
中石油北京天然氣管道有限公司 (“PetroChina Beijing Gas”)	PRC/Mainland China	Paid-up capital	40	40	40
BE Water[π]	Bermuda	Ordinary shares	41.13	41.13	41.13
China Gas Holdings Limited (“China Gas”)[Ω]	Bermuda	Ordinary shares	23.72	23.72	23.72
PJSC Verkhnechonskneftegaz (“VCNG”)	Russia	Ordinary shares	20	20	20

[π] *BE Water is a listed company on the Main Board of the Hong Kong Stock Exchange. The market values of the shares of BE Water held by the Group as at 31 December 2019 and the date of approval of these financial statements, based on its then quoted market prices, amounted to approximately HK$16.2 billion (2018: HK$15.9 billion) and HK$12.5 billion, respectively.*

During the year ended 31 December 2019, the Group's equity interest in BE Water was diluted from 42.43% to 41.13% upon the (i) exercise of 9,810,000 share options by certain option holders of BE Water and (ii) placing of 598,397,150 new ordinary shares, resulting in a total gain on deemed disposals of HK$187,453,000 recognised by the Group in profit or loss.

During the year ended 31 December 2018, the Group's equity interest in BE Water was diluted from 43.49% to 42.43% upon the (i) exercise of 2,580,000 share options by certain option holders of BE Water; (ii) placing of 450,000,000 new shares; (iii) issuance of 169,491,525 new ordinary shares; and (iv) repurchase and cancellation of 2,900,000 ordinary shares by BE Water, resulting in a total gain on deemed disposals of HK$330,394,000 recognised by the Group in profit or loss.

22. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(a) Particulars of the material associates, which are all indirectly held by the Company, are as follows: *(Continued)*

Ω *China Gas is a listed company on the Main Board of the Hong Kong Stock Exchange. The market values of the shares of China Gas held by the Group as at 31 December 2019 and the date of approval of these financial statements, based on its then quoted market prices, amounted to approximately HK$36.1 billion (2018: HK$34.5 billion) and HK$33.4 billion, respectively.*

During the year ended 31 December 2019, the Group's equity interest in China Gas decreased from 24.36% to 23.72% upon the exercise of 147,094,000 shares options by certain option holders of China Gas, resulting in a gain on deemed disposal of HK$150,662,000 recognised by the Group in profit or loss.

During the year ended 31 December 2018, the Group's equity interest in China Gas decreased from 24.91% to 24.36% upon the (i) exercise of 112,800,000 shares options by certain option holders of China Gas; and (ii) repurchase and cancellation of 9,851,200 ordinary shares by China Gas, resulting in a total gain on deemed disposals of HK$218,620,000 recognised by the Group in profit or loss.

(b) Material associates disclosures

The Group's associates are accounted for using the equity method and the principal activities of the four material associates are as follows:

(i) PetroChina Beijing Gas is engaged in the provision of natural gas transmission services in Mainland China.

(ii) BE Water and its subsidiaries are engaged in the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, sewage treatment, water treatment and distribution, and the provision of consultancy services and the licensing of technical know-how that is related to sewage treatment in Mainland China and certain overseas countries.

(iii) China Gas and its subsidiaries are principally engaged in the distribution and sale of piped natural gas, liquefied petroleum gas, and the provision of gas connection services in Mainland China.

(iv) VCNG is principally engaged in oil, gas and gas condensate fields exploration, production and sale in Russia.

22. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

The following table illustrates the summarised financial information of the above four material associates and has been adjusted to reflect the fair values of identifiable assets and liabilities at the respective dates of acquisition by the Group, and reconciled to the carrying amount in the consolidated financial statements:

	PetroChina Beijing Gas		BE Water		China Gas*		VCNG	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current assets	**1,689,376**	1,344,903	**35,251,473**	31,976,428	**40,875,758**	33,939,884	**6,496,258**	4,234,550
Non-current assets	**46,250,119**	45,965,993	**115,909,453**	94,300,615	**70,261,885**	59,586,394	**41,611,839**	39,175,645
Current liabilities	**(7,302,426)**	(6,480,608)	**(48,977,911)**	(36,516,547)	**(46,614,899)**	(33,498,090)	**(2,899,838)**	(2,422,811)
Non-current liabilities	**(6,179,775)**	(7,990,868)	**(55,651,839)**	(51,948,359)	**(23,580,827)**	(25,931,633)	**(7,508,800)**	(6,343,872)
Net assets	**34,457,294**	32,839,420	**46,531,176**	37,812,137	**40,941,917**	34,096,555	**37,699,459**	34,643,512
Less: Non-controlling interests	**–**	(7,774)	**(15,982,726)**	(12,322,600)	**(5,723,259)**	(5,162,911)	**–**	–
Net assets attributable to shareholders of the associates	**34,457,294**	32,831,646	**30,548,450**	25,489,537	**35,218,658**	28,933,644	**37,699,459**	34,643,512
Reconciliation to the Group's investments in the associates								
Proportion of the Group's ownership	**40%**	40%	**41.13%**	42.43%	**23.72%**	24.36%	**20%**	20%
Group's share of net assets of the associates, excluding goodwill recognised by the Group	**13,782,918**	13,132,658	**12,564,578**	10,815,211	**8,353,866**	7,047,403	**7,539,892**	6,928,702
Goodwill on acquisition recognised by the Group	**–**	–	**443,586**	443,586	**8,040,362**	8,040,362	**1,738,957**	1,747,886
Other reconciling items	**–**	–	**(29,179)**	(35,288)	**–**	–	**–**	–
Carrying amount of the investments	**13,782,918**	13,132,658	**12,978,985**	11,223,509	**16,394,228**	15,087,765	**9,278,849**	8,676,588
Other disclosures								
Revenue	**11,410,349**	11,302,598	**28,192,464**	24,596,857	**58,434,366**	60,833,805	**22,301,962**	23,133,541
Profit for the year	**4,638,461**	4,186,639	**5,842,590**	5,230,020	**9,820,313**	7,547,400	**6,060,533**	6,778,600
Profit for the year attributable to shareholders of the associates	**4,638,461**	4,186,380	**4,925,720**	4,471,265	**8,908,260**	6,925,698	**6,060,533**	6,778,600
Other comprehensive loss for the year	**–**	–	**(908,785)**	(2,795,925)	**(1,923,382)**	(1,922,741)	**–**	(2,244,786)
Other comprehensive loss for the year attributable to shareholders of associates	**–**	–	**(748,365)**	(1,911,268)	**(1,686,347)**	(1,827,237)	**–**	(2,244,786)
Share of the associates' profit for the year	**1,855,384**	1,674,552	**2,026,934**	1,897,158	**2,117,109**	1,696,406	**1,212,107**	1,355,720
Share of the associates' other comprehensive loss for the year	**–**	–	**(307,952)**	(810,951)	**(386,902)**	(455,166)	**–**	(448,957)
Dividend received/receivable by the Group	**1,440,250**	2,101,714	**783,031**	678,956	**544,572**	440,565	**980,460**	656,797

22. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(b) Material associates disclosures *(Continued)*

* *The statutory financial year end date of China Gas is 31 March, which is not coterminous with that of the Company's financial year end date. The financial statements for the twelve months ended 30 September 2019 are the latest financial statements of China Gas available for equity accounting by the Group. Accordingly, the financial period end of the financial statements of China Gas for which the equity accounting method was used for the year ended 31 December 2019 is as of 30 September 2019 or for the twelve months ended 30 September 2019.*

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

	2019	2018
	HK$'000	*HK$'000*
Share of the associates' profit/(loss) for the year	**(229,116)**	42,610
Share of the associates' other comprehensive income for the year	**–**	167
Share of net assets of the associates	**4,363,910**	4,510,380
Goodwill on acquisition recognised by the Group, net of impairment	**445,945**	744,675

23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	HK$'000	*HK$'000*
Listed equity investments, at fair value		
– Beijing Jingneng Clean Energy Co., Limited	**267,871**	372,262
– Biosino Bio-Technology and Science Incorporation	**43,065**	43,065
– CNPC Capital Company Limited	**2,403,413**	2,156,911
	2,714,349	2,572,238
Unlisted equity investments, at fair value	**569,868**	336,100
	3,284,217	2,908,338

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

At the date of approval of these financial statements, the fair value of the Group's listed equity investments as at 31 December 2019, based on their then quoted market prices, amounted to approximately HK$2.1 billion.

24. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 *HK$'000*	2018 *HK$'000*
Unlisted investment in a fund, at fair value	**2,265,249**	2,301,452

The above investment in a fund was classified as a financial asset at fair value through profit or loss as it was mandatorily required to be measured at fair value through profit or loss.

25. INVENTORIES

	2019 *HK$'000*	2018 *HK$'000*
Raw materials	**3,947,568**	4,110,646
Work in progress	**649,183**	612,243
Finished goods	**592,437**	415,735
	5,189,188	5,138,624

26. TRADE RECEIVABLES

	2019 *HK$'000*	2018 *HK$'000*
Trade receivables	**6,221,099**	5,475,684
Impairment *(note (d))*	**(191,649)**	(258,787)
	6,029,450	5,216,897

26. TRADE RECEIVABLES *(Continued)*

Notes:

(a) Included in the Group's trade receivables as at 31 December 2019 were aggregate amounts of HK$36,420,000 (2018: HK$35,251,000) and HK$74,983,000 (2018: HK$55,227,000) due from fellow subsidiaries and a joint venture of the Group, arising from transactions carried out in the ordinary course of business of the Group, respectively. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the Group to its major customers.

(b) At 31 December 2019, trade receivables amounting to HK$21,431,000 (2018: HK$53,232,000) were pledged to secure certain bank loans (note 34(c)).

(c) The various group companies have different credit policies, depending on the requirements of their markets and the businesses which they operate. Ageing analysis of trade receivables is prepared and closely monitored in order to minimise any credit risk associated with the receivables. The Group does not hold any collateral or other credit enhancement over its trade receivables.

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

	2019	2018
	HK$'000	*HK$'000*
Billed:		
Within one year	**3,987,212**	2,907,189
One to two years	**63,304**	73,721
Two to three years	**26,112**	31,788
Over three years	**67,730**	53,455
	4,144,358	3,066,153
Unbilled*	**1,885,092**	2,150,744
	6,029,450	5,216,897

* *The unbilled balance was attributable to the sale of natural gas near the year end date and such sale will be billed in the next metre reading date.*

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(d) The movements in the loss allowance for impairment of trade receivables during the year are as follows:

	2019 HK$'000	2018 HK$'000
At 1 January	**258,787**	193,923
Impairment/(reversal of impairment) losses recognised during the year, net (note 9)	**(56,825)**	85,298
Amount written off as uncollectible	**(8,181)**	(9,556)
Exchange realignment	**(2,132)**	(10,878)
At 31 December	**191,649**	258,787

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on invoice dates for groupings of various customer segments with similar loss patterns. 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.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

At 31 December 2019

		Billed				
	Unbilled	**Within 1 year**	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Expected credit loss rate	**1.18%**	**1.18%**	**8.28%**	**26.26%**	**62.45%**	**3.08%**
Gross carrying amount (HK$'000)	**1,885,092**	**4,077,779**	**54,378**	**28,833**	**175,017**	**6,221,099**
Expected credit losses (HK$'000)	**22,245**	**48,025**	**4,505**	**7,572**	**109,302**	**191,649**

At 31 December 2018

		Billed				
	Unbilled	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	1.29%	1.29%	10.80%	25.03%	78.28%	4.73%
Gross carrying amount (HK$'000)	2,150,744	3,025,549	38,995	29,852	230,544	5,475,684
Expected credit losses (HK$'000)	27,683	38,944	4,211	7,471	180,478	258,787

27. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	2019 HK$'000	2018 HK$'000
Prepayments		**1,408,855**	1,401,839
Deposits and other receivables	*(a)*	**1,373,289**	1,771,927
Due from holding companies	*28*	**1,550,564**	1,590,632
Due from fellow subsidiaries	*28*	**117,978**	119,863
Due from a joint venture	*28*	**88,090**	89,498
Due from associates	*28*	**30,565**	37,308
Due from related parties	*28*	**104,332**	182,298
Contract assets	*(b)*	**319,061**	171,442
		4,992,734	5,364,807
Impairment allowance	*(c)*	**(415,967)**	(214,389)
		4,576,767	5,150,418
Portion classified as current assets		**(3,638,798)**	(3,611,879)
Non-current portion		**937,969**	1,538,539

Notes:

(a) The Group's deposits and other receivables as at 31 December 2019 and 2018 include, inter alia, the following:

(i) certain deposits of HK$131,377,000 (2018: HK$85,198,000) in total, which were classified as non-current assets, paid for the construction or purchase of buildings, gas pipelines, equipment and machinery; and

(ii) a deposit of EUR3 million (equivalent to HK$24 million) (2018: EUR23 million (equivalent to HK$207 million)) paid to a bank for securing certain bank facilities granted. Such deposit will be refunded upon the expiry of the banking facilities (note 34(c)).

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

Notes: (Continued)

(b) Contract assets arise from solid waste treatment service contracts and are initially recognised for revenue earned from the provision of construction services as the receipt of consideration is conditional on successful completion of the construction services. The increases in contract assets in 2019 and 2018 were the result of the increase in the provision of construction services close to the end of each of the years.

The expected timing of recovery or settlement of the Group's contract assets as at the end of the reporting period is as follows:

	31 December 2019 *HK$'000*	31 December 2018 *HK$'000*	1 January 2018 *HK$'000*
Within one year	**308,962**	161,187	29,021
After one year	**10,099**	10,255	10,608
Total contract assets	**319,061**	171,442	39,629

(c) In respect of impairment consideration of the Group's other receivables and contract assets, an impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. At 31 December 2019, the probability of default applied for other receivables ranged from 0.05% to 0.10% (2018: 0.25% to 2.19%) and the loss given default was estimated to be ranged from 57.10% to 69.60% (2018: 55.37% to 62.38%), whereas the probability of default applied for contract assets ranged from 0.05% to 0.10% (2018: 0.25% to 2.19%) and the loss given default rate was estimated to be ranged from 57.10% to 69.60% (2018: 55.37% to 62.38%).

In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

The movements in the loss allowance for impairment of other receivables and contract assets during the year are as follows:

	2019 *HK$'000*	2018 *HK$'000*
At 1 January	**214,389**	147,948
Impairment losses recognised during the year, net *(note 9)*	**205,253**	70,926
Exchange realignment	**(3,675)**	(4,485)
At 31 December	**415,967**	214,389

Other than those mentioned above, the financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. At 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

28. BALANCES WITH HOLDING COMPANIES/FELLOW SUBSIDIARIES/A JOINT VENTURE/ ASSOCIATES/RELATED PARTIES

The balances with holding companies, fellow subsidiaries, a joint venture, associates and related parties are unsecured, interest-free and repayable on demand, except for:

(i) an aggregate amount of RMB78,400,000 (equivalent to HK$88,090,000) (2018: RMB78,400,000 (equivalent to HK$89,498,000)) due from a joint venture, which is unsecured, bears interest at the rate of 3.92% (2018: ranged from 3.92% to 4.35%) per annum and is repayable within one year. Interest income of RMB2,953,000 (equivalent to HK$3,355,000) (2018: RMB2,668,000 (equivalent to HK$3,176,000)) was recognised in profit or loss in respect of this balance. The joint venture had been loss-making and in view of the deteriorating operating results of the joint venture, the Group provided for an impairment of the amount due from the joint venture of RMB78,400,000 (equivalent to HK$88,090,000) (2018: Nil) during the year; and

(ii) interest-bearing loans of HK$907 million (2018: HK$1,147 million) advanced from an associate, further details of which are set out in note 34(b)(ii).

The trade balances with fellow subsidiaries and a joint venture of the Group included in trade receivables and trade and bills payables are disclosed in notes 26(a) and 40 to the financial statements, respectively.

29. RESTRICTED CASH AND PLEDGED DEPOSITS

	Notes	**2019** **HK$'000**	2018 HK$'000
Restricted cash	*(a)*	**26,923**	27,353
Pledged deposits	*(b)*	**9,778**	12,630
Restricted cash and pledged deposits		**36,701**	39,983

Notes:

(a) Restricted cash of the Group represented the proceeds of a government surcharge of HK$26,923,000 (2018: HK$27,353,000) collected prior to 2003 by Beijing Gas, a wholly-owned subsidiary indirectly held by the Company, from piped gas customers on behalf of the Beijing Municipal Commission of Development and Reform (the "BMCDR"). The proceeds held on behalf of the BMCDR, which are deposited in a specific bank account of the Group, together with any interest earned therefrom, are repayable to the BMCDR (note 41(a)(i)).

(b) Bank balances of HK$9,778,000 (2018: HK$12,630,000) as at 31 December 2019 were pledged to secure certain bank loans granted to the Group (note 34(c)).

30. CASH AND CASH EQUIVALENTS

	2019 *HK$'000*	2018 *HK$'000*
Cash and bank balances other than time deposits	**10,102,694**	9,623,477
Saving deposits placed in a financial institution (an associate of the Group) *(note 46(a)(x))*	**480,695**	464,658
Time deposits:		
Placed in banks	**9,200,602**	5,563,092
Placed in a financial institution (an associate of the Group) *(note 46(a)(x))*	**2,411,631**	2,324,252
	22,195,622	17,975,479
Less: Restricted cash and pledged deposits *(note 29)*	**(36,701)**	(39,983)
Cash and cash equivalents	**22,158,921**	17,935,496

Notes:

(a) At 31 December 2019, the cash and deposit balances of the Group denominated in RMB amounted to HK$17.6 billion (2018: HK$14.7 billion). 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 and a financial institution earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and two years (2018: one day and six months) depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The saving and time deposits are deposited with creditworthy banks and a financial institution with no recent history of default.

31. SHARE CAPITAL

	2019	2018
	HK$'000	*HK$'000*
Issued and fully paid:		
1,262,053,268 ordinary shares	**30,401,883**	30,401,883

32. SHARE OPTION SCHEME OF A SUBSIDIARY

BEEGL, a subsidiary of the Group, operates a share option scheme (the "BEEGL Scheme") for the purpose of (i) attracting and retaining the best quality personnel for the development of its business; (ii) providing incentives and rewards to eligible participants; and (iii) promoting the long term financial success of BEEGL by aligning the interests of grantees to its shareholders. Eligible participants of the BEEGL Scheme include (i) any person employed by BEEGL or a subsidiary of BEEGL and any person who is an officer or director (whether executive or non-executive) of BEEGL or any subsidiary of BEEGL; (ii) any non-executive director and any independent non-executive director, or officer of any member of BEEGL and its subsidiaries (collectively referred to as the "BEEGL Group"); and (iii) any consultant of any member of the BEEGL Group. The BEEGL 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 BEEGL Scheme is an amount equivalent, upon their exercise, to 10% of the number of ordinary shares of BEEGL in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the BEEGL Scheme within any 12-month period is limited to 1% of the ordinary shares of BEEGL 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 BEEGL, or to any of their associates, are subject to approval in advance by its independent non-executive directors. In addition, any share options granted to an independent non-executive director of BEEGL, or to any of their associates, in excess of 0.1% of the ordinary shares of BEEGL in issue at any time or with an aggregate value (based on the price of the BEEGL'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 of BEEGL.

32. SHARE OPTION SCHEME OF A SUBSIDIARY *(Continued)*

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 BEEGL, 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.

The exercise price of share options is determinable by the directors of BEEGL, but may not be less than the higher of (i) the closing price of BEEGL's shares on the Hong Kong Stock Exchange on the date of offer of the share options; and (ii) the average closing price of BEEGL's shares on the Hong Kong 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 of BEEGL. The share options are non-transferrable and lapse when they expire or within three months from the date on which the grantee ceases to be an employee of the BEEGL Group.

There was no movement in the share options granted under the BEEGL Scheme during the years ended 31 December 2019 and 2018. At the end of the reporting period and the date of approval of these financial statements, BEEGL had 37,620,000 (2018: 37,620,000) share options outstanding under the BEEGL Scheme, which represented approximately 2.5% of BEEGL's ordinary shares in issue at those dates. The exercise price of the share options is HK$1.25 per share, which is subject to adjustment in the case of rights or bonus issues, or other similar changes in BEEGL's share capital. The share options are exercisable during the period from 21 June 2011 to 20 June 2021. The exercise in full of the outstanding share options would, under the present capital structure of BEEGL, result in the issue of 37,620,000 additional ordinary shares of BEEGL and additional share capital of BEEGL of HK$67,814,000 (before issue expenses).

33. RESERVES

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) The capital reserve of the Group includes (i) gains or losses on acquisition of the non-controlling interests of existing subsidiaries and/or disposal of subsidiaries without a loss of control; and (ii) share of the share option reserves of associates.

(c) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's PRC subsidiaries, joint ventures and associates. None of the Group's PRC reserve funds as at 31 December 2019 were distributable in the form of cash dividends.

34. BANK AND OTHER BORROWINGS

	2019 *HK$'000*	2018 *HK$'000*
Bank loans:		
Secured	**799,800**	856,929
Unsecured	**29,355,321**	25,834,006
	30,155,121	26,690,935
Other loans:		
Unsecured	**2,971,130**	1,806,973
Total bank and other borrowings	**33,126,251**	28,497,908
Analysed into:		
Bank loans repayable:		
Within one year	**7,058,107**	986,501
In the second year	**10,071,475**	4,718,284
In the third to fifth years, inclusive	**11,649,619**	19,571,455
Beyond five years	**1,375,920**	1,414,695
	30,155,121	26,690,935
Other loans repayable:		
Within one year	**302,922**	552,906
In the second year	**300,913**	147,138
In the third to fifth years, inclusive	**1,010,646**	881,878
Beyond five years	**1,356,649**	225,051
	2,971,130	1,806,973
Total bank and other borrowings	**33,126,251**	28,497,908
Portion classified as current liabilities	**(7,361,029)**	(1,539,407)
Non-current portion	**25,765,222**	26,958,501

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

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

	2019 HK$'000	2018 HK$'000
HK$	**18,459,058**	16,976,764
RMB	**5,742,248**	3,004,113
US$	**2,745,555**	1,905,695
EUR	**6,179,390**	6,611,336
	33,126,251	28,497,908

(b) The Group's bank and other borrowings as at 31 December 2019 included the following:

(i) amortised cost of an interest-free loan of HK$130,253,000 (2018: HK$132,334,000) granted by a non-controlling equity holder of a subsidiary;

(ii) loans of HK$907 million (2018: HK$1,147 million) in total advanced from an associate, which bear interest at rates ranging from 3-month HIBOR plus 1.05% to 5.32% per annum. Interest expenses of HK$38,627,000 (2018: HK$64,210,000) were recognised in profit or loss during the year in respect of the loans (note 46(a)(x)); and

(iii) bank and other loans with an aggregate carrying amount of HK$1,969,095,000 (2018: HK$68,741,000) advanced from three overseas governments, the Asian Development Bank, the Finance Bureau of Beijing and Asian Infrastructure Investment Bank which were obtained to finance certain of the Group's pipeline construction projects. Except for an interest-free loan of HK$6,951,000 (2018: HK$7,483,000), these loans bear interest at rates ranging from 2% to 6.3% per annum.

(c) The Group's secured bank and other loans are secured by the following assets:

		Carrying amount	
	Notes	**2019** ***HK$'000***	2018 *HK$'000*
Building	*15(a)*	**45,322**	48,687
Operating concessions	*19(a)*	**1,914,871**	370,096
Receivables under service concession arrangements	*19(a)*	**216,523**	–
Trade receivables	*26(b)*	**21,431**	53,232
Deposit paid to a bank	*27(a)(ii)*	**23,571**	206,540
Bank balances	*29(b)*	**9,778**	12,630

In addition to the pledge of assets given above, bank loans with carrying amounts of HK$2,575,350,000 (2018: HK$2,828,700,000) as at 31 December 2019 are guaranteed by the Company.

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(d) The loan agreements in respect of certain bank loans outstanding as at 31 December 2019 include certain conditions imposing specific performance obligations on the Company's holding companies, among which the following events would constitute events of default on the loan facilities:

(i) if Beijing Enterprises Group does not or ceases to own, directly or indirectly, at least 40% or 50% of the beneficiary interest of the Company; and

(ii) if Beijing Enterprises Group ceases to be controlled and supervised by the Beijing Municipal Government.

A summary of these bank loans as at 31 December 2019 is as follows:

	Year of drawdown	Contractual interest rate per annum	Final maturity
Five-year HK$4 billion term loan	2015	1-month HIBOR+1.15%	27 November 2020
Five-year HK$3 billion term loan	2016	1-month HIBOR+0.68%	22 November 2021
Five-year HK$1.94 billion term loan	2016	1-month HIBOR+1.06%	7 December 2021
Five-year HK$4 billion term loan	2016	1-month HIBOR+0.88%	24 June 2021
Five-year US$290 million syndicated loan	2017	1-month LIBOR+0.825%	15 May 2022
Five-year HK$4 billion term loan	2017	1-month HIBOR+0.62%	17 July 2022
Five-year EUR350 million term loan	2018	1-month EURIBOR+1.09%	17 July 2023
US$50 million revolving loan	2019	1-month HIBOR+0.95%	N/A
US$60 million revolving loan	2019	1-month HIBOR/LIBOR+0.8%	N/A
EUR80 million revolving loan	2019	1-month HIBOR+0.7%	N/A
HK$700 million revolving loan	2019	1-month HIBOR+0.8%	N/A

To the best knowledge of the directors of the Company, none of the above default events took place during the year and as at the date of approval of these financial statements.

35. GUARANTEED BONDS AND NOTES

A summary of the guaranteed bonds and notes issued by the Group and outstanding as at 31 December 2019 is as follows:

	Principal at original currency *'million*	Contractual interest rate per annum	Maturity	2019 *HK$'000*	2018 *HK$'000*
2011 First Senior Notes	**US$600**	**5%**	**2021**	**4,629,044**	4,647,003
2011 Second Senior Notes	**US$400**	**6.375%**	**2041**	**3,086,024**	3,098,002
2012 Senior Notes	**US$800**	**4.5%**	**2022**	**6,194,234**	6,218,602
2015 EUR Bonds	**EUR500**	**1.435%**	**2020**	**4,373,180**	4,488,860
2015 US$ Bonds	**US$200**	**4.99%**	**2040**	**1,514,275**	1,521,040
2017 EUR Bonds	**EUR800**	**1.3%**	**2022**	**6,963,249**	7,154,680
2017 Guaranteed Notes	**US$500**	**2.75%**	**2022**	**3,881,236**	3,896,620
				30,641,242	31,024,807
Portion classified as current liabilities				**(4,373,180)**	–
Non-current portion				**26,268,062**	31,024,807

Except for the 2017 Guaranteed Notes which is guaranteed by Beijing Gas, all the above guaranteed bonds and notes are guaranteed by the Company.

Further details of the guaranteed bonds and notes are set out in the Company's announcements dated 6 May 2011, 19 April 2012, 30 April 2015, 1 December 2015 and 13 April 2017, respectively.

The fair value of the Group's guaranteed bonds and notes as at 31 December 2019 was HK$32,647,754,000 (2018: HK$31,957,012,000), based on price quotations from financial institutions at the reporting date.

36. DEFINED BENEFIT PLANS

Certain employees of Beijing Gas and the EEW Group, indirectly-held wholly-owned subsidiaries of the Company, are entitled to retirement benefits after retirement such as supplemental medical reimbursement, allowance and beneficiary benefits pursuant to certain of their defined benefit plans. The plans are exposed to interest rate risk, health cost inflation rate and expected salary increase rate for the employees.

(a) Net benefit expense (recognised in administrative expenses)

	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement benefit plan	Post-employment physical examination plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2019					
Current service cost	**46,069**	**4,863**	**23,447**	**6,517**	**80,896**
Past service cost	**12,081**	**1,189**	**–**	**1,694**	**14,964**
Interest cost	**35,536**	**8,038**	**13,280**	**7,853**	**64,707**
Net benefit expense	**93,686**	**14,090**	**36,727**	**16,064**	**160,567**
Year ended 31 December 2018					
Current service cost	49,946	3,962	24,595	–	78,503
Past service cost	27,807	5,792	–	221,529	255,128
Interest cost	43,473	7,805	12,003	–	63,281
Net benefit expense	121,226	17,559	36,598	221,529	396,912

36. DEFINED BENEFIT PLANS *(Continued)*

(b) Present value of the defined benefit obligations

2019

	Supplemental post-retirement medical reimbursement plan *HK$'000*	Supplemental post-retirement allowance and beneficiary benefit plans *HK$'000*	Internal retirement benefit plan *HK$'000*	Post-employment physical examination plan *HK$'000*	Total *HK$'000*
At 1 January 2019	955,508	218,919	640,030	212,425	2,026,882
Net benefit expenses recognised in profit or loss	93,686	14,090	36,727	16,064	160,567
Benefits paid	(8,547)	(10,271)	(19,383)	(3,119)	(41,320)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	(25,307)	4,560	221,922	(7,852)	193,323
Exchange realignment	(15,702)	(3,538)	(24,217)	(3,399)	(46,856)
At 31 December 2019	999,638	223,760	855,079	214,119	2,292,596
Portion classified as current liabilities included in other payables, accruals and contract liabilities *(note 41)*					(21,780)
Non-current portion					2,270,816

36. DEFINED BENEFIT PLANS *(Continued)*

(b) Present value of the defined benefit obligations *(Continued)*

2018

	Supplemental post-retirement medical reimbursement plan *HK$'000*	Supplemental post-retirement allowance and beneficiary benefit plans *HK$'000*	Internal retirement benefit plan *HK$'000*	Post–employment physical examination plan *HK$'000*	Total *HK$'000*
At 1 January 2018	969,121	176,463	721,109	–	1,866,693
Net benefit expenses recognised in profit or loss	121,226	17,559	36,598	221,529	396,912
Benefits paid	(7,704)	(8,357)	(18,749)	–	(34,810)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	(86,183)	42,636	(70,408)	–	(113,955)
Exchange realignment	(40,952)	(9,382)	(28,520)	(9,104)	(87,958)
At 31 December 2018	955,508	218,919	640,030	212,425	2,026,882
Portion classified as current liabilities included in other payables, accruals and contract liabilities *(note 41)*					(15,549)
Non-current portion					2,011,333

At 31 December 2019, the expected contribution to be made within the next 12 months out of the defined benefit obligations was HK$21,780,000 (2018: HK$15,549,000).

36. DEFINED BENEFIT PLANS *(Continued)*

(c) Principal assumptions

The most recent actuarial valuations of the present value of the defined benefit obligations for Beijing Gas and the EEW Group were carried out at 31 December 2019 by Willis Towers Watson and Aon Hewitt, respectively, using the projected unit credit method. The material actuarial assumptions used in determining the defined benefit obligations under the Group's plans are as follows:

	2019	2018
Beijing Gas:		
Discount rate	**3.75%**	3.75%
Healthcare cost inflation rate	**7.00%**	7.00%
EEW Group:		
Discount rate	**1.00%**	2.10%
Salary increase rate	**2.50%**	2.50%

36. DEFINED BENEFIT PLANS *(Continued)*

(c) Principal assumptions *(Continued)*

A quantitative sensitivity analysis for significant assumptions as at 31 December 2019 and 2018 is shown below:

	Increase in rate %	Increase/ (decrease) in net defined benefit obligations HK$'000	Decrease in rate %	Increase/ (decrease) in net defined benefit obligations HK$'000
Beijing Gas				
2019				
Discount rate	**0.25**	**(67,126)**	**0.25**	**73,594**
Healthcare cost inflation rate	**1.00**	**319,565**	**1.00**	**(228,501)**
2018				
Discount rate	0.25	(83,515)	0.25	91,100
Healthcare cost inflation rate	1.00	307,156	1.00	(219,570)
EEW Group				
2019				
Discount rate	**0.25**	**(58,636)**	**0.25**	**62,397**
Salary increase rate	**0.50**	**4,609**	**0.50**	**(4,400)**
2018				
Discount rate	0.25	(43,272)	0.25	45,881
Salary increase rate	0.50	3,780	0.50	(3,579)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

37. PROVISION FOR MAJOR OVERHAULS AND ONEROUS CONTRACTS

Pursuant to the service concession arrangements on the Group's solid waste treatment operations in Mainland China, the Group has contractual obligations to maintain the infrastructures it operates to a specified level of serviceability and/or to restore the infrastructures to a specified condition before they are handed over to the grantor at the end of the service concession periods. In addition, pursuant to the contractual arrangement for one of the Group's solid waste incineration plants in Germany, the Group is obliged to demolish the solid waste incineration plant in 2025. These contractual obligations to demolish plant, maintain or restore the infrastructures, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, 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 expenditures on these maintenance, demolishment and restoration costs are collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis and revised where appropriate.

In addition, onerous contracts also arise from solid waste treatment service contracts in respect of the solid waste treatment operations in Germany. Management considers the unavoidable costs of meeting the obligations under certain of these contracts exceed the economic benefits expected to be recovered under such contracts.

37. PROVISION FOR MAJOR OVERHAULS AND ONEROUS CONTRACTS *(Continued)*

The movements in the provision for major overhauls of the infrastructures and onerous contracts in respect of the solid waste treatment service contracts during the year are as follows:

	Notes	Major overhauls HK$'000	Provision for Onerous contracts HK$'000	Total HK$'000
Year ended 31 December 2019				
At 1 January 2019		201,688	191,230	392,918
Additional provision	9	21,508	–	21,508
Increase in a discounted amount arising from the passage of time	8	1,815	–	1,815
Exchange realignment		(5,815)	(5,325)	(11,140)
At 31 December 2019		219,196	185,905	405,101
Portion classified as current liabilities		–	(49,525)	(49,525)
Non-current portion		219,196	136,380	355,576
Year ended 31 December 2018				
At 1 January 2018		186,609	199,534	386,143
Additional provision	9	21,362	–	21,362
Increase in a discounted amount arising from the passage of time	8	2,190	–	2,190
Exchange realignment		(8,473)	(8,304)	(16,777)
At 31 December 2018		201,688	191,230	392,918
Portion classified as current liabilities		–	(50,944)	(50,944)
Non-current portion		201,688	140,286	341,974

38. OTHER NON-CURRENT LIABILITIES

	2019 *HK$'000*	2018 *HK$'000*
Other liabilities – non-current portion *(note 41)*	**171,710**	205,198
Deferred income *(note)*	**1,651,509**	1,503,644
	1,823,219	1,708,842

Note: Deferred income of the Group mainly represented government subsidies in respect of the construction of gas pipelines and brewery plants in Mainland China by the Group. 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.

39. DEFERRED TAX

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

	2019 *HK$'000*	2018 *HK$'000*
Deferred tax assets	**1,638,766**	1,423,522
Deferred tax liabilities	**(2,576,094)**	(2,250,422)
	(937,328)	(826,900)

39. DEFERRED TAX *(Continued)*

The components of deferred tax assets and liabilities and their movements during the years ended 31 December 2019 and 2018 are as follows:

	Notes	Attributable to											
		Fair value adjustments arising from acquisition of subsidiaries	Transfer of assets from customers	Depreciation allowances in excess of related depreciation	Revaluation of investment properties	Revaluation of equity investments at fair value through other comprehensive income	Impairment provision and accrued expenses	Defined benefit obligations	Provision for major overhauls and onerous contracts	Temporary differences related to operating concessions	Losses available for offsetting future taxable profits	Withholding tax on unremitted profits	Net deferred tax assets/ (liabilities)
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(note (a))*	*HK$'000* *(note (b))*	*HK$'000*
At 1 January 2018		(2,039,222)	(110,504)	(2,844)	(115,692)	(232,321)	846,773	414,202	77,633	(42,640)	25,236	(122,025)	(1,301,404)
Deferred tax credited/(charged) to profit or loss during the year	*12*	91,894	13,147	(130)	–	–	108,394	75,263	1,571	(30,532)	(6,181)	–	253,426
Deferred tax credited/(charged) to other comprehensive income during the year		–	–	–	–	222,319	–	(32,007)	–	–	–	–	190,312
Exchange realignment		84,082	4,000	232	4,754	1,952	(25,301)	(19,312)	(3,292)	(15,561)	(788)	–	30,766
At 31 December 2018 and 1 January 2019		(1,863,246)	(93,357)	(2,742)	(110,938)	(8,050)	929,866	438,146	75,912	(88,733)	18,267	(122,025)	(826,900)
Acquisition of subsidiaries	*43*	(89,555)	–	–	–	–	–	–	–	–	–	–	(89,555)
Deferred tax credited/(charged) to profit or loss during the year	*12*	73,059	(22,465)	(29,757)	–	–	37,166	12,010	337	(111,093)	–	–	(40,743)
Deferred tax credited/(charged) to other comprehensive income during the year		–	–	–	–	(70,901)	–	59,650	–	–	–	–	(11,251)
Exchange realignment		49,245	1,721	5,030	1,745	3,763	(21,851)	(10,461)	(2,016)	4,337	(392)	–	31,121
At 31 December 2019		(1,830,497)	(114,101)	(27,469)	(109,193)	(75,188)	945,181	499,345	74,233	(195,489)	17,875	(122,025)	(937,328)

39. DEFERRED TAX *(Continued)*

Notes:

(a) At 31 December 2019, deferred tax assets have not been recognised in respect of unused tax losses of HK$4,424,464,000 (2018: HK$5,036,445,000) as they have been arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, tax losses of HK$4,402,824,000 (2018: HK$5,014,805,000) will expire in one to five years.

(b) Pursuant to income tax laws of the PRC, Germany, Luxembourg and Russia, withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in these countries. Lower withholding tax rates may be applied if there is a tax treaty between these countries and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends declared by those subsidiaries, joint ventures and associates established in these countries in respect of their earnings.

The withholding tax rates applicable to the Group are as follows:

Entities established in Mainland China	5%-10%
Entities established in Germany	25%
Entities established in Luxembourg	15%
Entities established in Russia	5%

Deferred tax has not been fully recognised for withholding taxes that would be payable on certain portions of the unremitted earnings of certain of the Group's subsidiaries established in Mainland China, Germany and Luxembourg that are subject to withholding taxes. In the opinion of the Company's directors, it is not probable that these subsidiaries will distribute these unremitted earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries in Mainland China, Germany and Luxembourg for which deferred tax liabilities have not been recognised totalled approximately HK$30 billion (2018: HK$27 billion) as at 31 December 2019.

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

40. TRADE AND BILLS PAYABLES

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

	2019	2018
	HK$'000	*HK$'000*
Billed:		
Within one year	**3,142,503**	2,529,803
One to two years	**127,634**	70,757
Two to three years	**3,046**	11,123
Over three years	**15,923**	24,034
	3,289,106	2,635,717
Unbilled*	**1,219,237**	1,868,995
	4,508,343	4,504,712

* *The unbilled balance was attributable to (i) purchase of natural gas near the year end which will be billed subsequently in early January 2020; and (ii) accrued extra purchase costs which will be billed when the price is agreed by Beijing Gas with the supplier.*

40. TRADE AND BILLS PAYABLES *(Continued)*

Included in the trade and bills payables as at 31 December 2019 are amounts of HK$19,594,000 (2018: HK$48,993,000) in total due to fellow subsidiaries, arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related parties to their major customers.

41. OTHER PAYABLES, ACCRUALS AND CONTRACT LIABILITIES

	Notes	2019 HK$'000	2018 HK$'000
Accruals		**1,660,385**	1,520,824
Defined benefit obligations – current portion	*36(b)*	**21,780**	15,549
Other liabilities	*(a)*	**6,848,191**	8,634,384
Due to holding companies	*28*	**2,386,965**	2,531,598
Due to related parties	*28*	**734,242**	525,665
Contract liabilities	*(b)*	**9,756,058**	8,391,029
		21,407,621	21,619,049
Portion classified as current liabilities		**(21,235,911)**	(21,413,851)
Non-current portion	*38*	**171,710**	205,198

Notes:

(a) The Group's other liabilities as at 31 December 2019 included, inter alia, the following:

(i) an amount of HK$26,923,000 (2018: HK$27,353,000) payable to the BMCDR in respect of a government surcharge collected on its behalf by the Group, further details of which are set out in note 29(a) to the financial statements; and

(ii) construction costs of HK$395,705,000 (2018: HK$175,805,000) payable to certain fellow subsidiaries of the Group. The balances with the fellow subsidiaries are unsecured, interest-free, and are repayable within credit periods similar to those offered by the fellow subsidiaries to their major customers.

41. OTHER PAYABLES, ACCRUALS AND CONTRACT LIABILITIES *(Continued)*

Notes: (Continued)

(b) Details of contract liabilities are as follows:

	31 December 2019	31 December 2018	1 January 2018
	HK$'000	*HK$'000*	*HK$'000*
Short-term advances received from customers in respect of:			
Sale of piped natural gas	**8,666,212**	7,553,199	6,719,156
Sale of brewery products	**1,029,574**	746,260	807,885
Provision of solid waste treatment services	**60,272**	91,570	79,368
Total contract liabilities	**9,756,058**	8,391,029	7,606,409

Over 90% of the contract liabilities as at the end of each of the reporting period are expected to be recognised as revenue in the following year.

The increase in contract liabilities in 2019 and 2018 was mainly due to the increase in short-term advances received from customers in relation to the sale of piped natural gas at the end of these years.

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

Yanjing Investment (a 79.77% owned subsidiary which holds 57.40% equity interests in Yanjing Brewery) and its subsidiaries (collectively the "Yanjing Investment Group") were considered subsidiaries that have material non-controlling interests during the years ended 31 December 2019 and 2018, and summary financial information of which is set out below:

	2019	2018
	HK$'000	*HK$'000*
Consolidated profit for the year allocated to non-controlling interests	**221,398**	208,505
Dividends paid to non-controlling interests	**166,893**	137,901
Accumulated balances of non-controlling interests at the reporting date	**8,435,750**	8,519,569

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

(Continued)

The following tables illustrate the summarised consolidated financial information of the Yanjing Investment Group:

	2019 HK$'000	2018 HK$'000
Revenue	**11,826,321**	12,366,723
Total expenses	**(11,603,850)**	(12,144,793)
Profit for the year	**222,471**	221,930
Total comprehensive income/(loss) for the year	**105,249**	(97,199)
Current assets	**8,120,803**	7,407,517
Non-current assets	**13,152,673**	13,447,025
Current liabilities	**(6,424,044)**	(6,128,219)
Non-current liabilities	**(570,655)**	(271,292)
Net cash flows from operating activities	**1,519,945**	935,456
Net cash flows used in investing activities	**(513,660)**	(445,558)
Net cash flows used in financing activities	**(105,972)**	(643,860)
Net increase/(decrease) in cash and cash equivalents	**900,313**	(153,962)

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

43. BUSINESS COMBINATION

In March 2019, Beijing Gas acquired a 60% equity interest in Tangshan Gas by way of a capital contribution of RMB800,000,000 (equivalent to HK$930,233,000), of which RMB560,000,000 has been injected into Tangshan Gas as at 31 December 2019. Tangshan Gas and its subsidiaries (the "Tangshan Group") are principally engaged in the distribution and sale of piped natural gas in Hebei province, the PRC.

The fair values of the identifiable assets and liabilities of the Tangshan Group acquired and assumed as at the date of acquisition were as follows:

	Notes	2019 *HK$'000*
Net assets acquired:		
Property, plant and equipment	*15*	**984,455**
Right-of-use assets	*17(b)*	**751,948**
Other intangible assets	*20*	**358,646**
Inventories		**7,711**
Trade receivables		**269,254**
Prepayments, other receivables and other assets		**363,874**
Income tax recoverable		**7,099**
Cash and bank balances		**821,298**
Trade and bills payables		**(16,203)**
Other payables, accruals and contract liabilities		**(47,373)**
Bank and other borrowings		**(2,065,581)**
Lease liabilities	*17(b)*	**(339,182)**
Deferred tax liabilities	*39*	**(89,555)**
Total identifiable net assets at fair value		**1,006,391**
Non-controlling interest		**(439,963)**
		566,428
Goodwill on acquisition	*18*	**84,735**
		651,163
Satisfied by capital contribution to the acquiree in cash in 2018		**651,163**

43. BUSINESS COMBINATION *(Continued)*

The Group has elected to measure the non-controlling interest in the subsidiaries acquired at the non-controlling interest's proportionate share of the identifiable net assets of the subsidiaries acquired.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2019
	HK$'000
Cash and cash equivalents acquired and net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries included in cash flows from investing activities	**821,298**

Since the acquisition, the Tangshan Group contributed HK$1,065,032,000 to the Group's revenue and a loss of HK$112,112,000 to the consolidated profit for the year ended 31 December 2019.

Had the above business combination taken place at the beginning of the year, the Group's profit for the year would have been HK$8,570,847,000 and the Group's revenue would have been HK$68,073,511,000.

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions of investing and financing activities

Apart from the transactions as detailed in note 22(a) to the financial statements, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$252,746,000 each in respect of lease arrangements for land, office premises, staff quarters, plant and machinery, gas pipelines and motor vehicles.

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

(b) Changes in liabilities arising from financing activities

	Bank and other borrowings *HK$'000*	Guaranteed bonds and notes *HK$'000*	Lease liabilities *HK$'000*
At 1 January 2018	29,076,603	31,410,505	–
Changes from financing cash flows	(197,078)	–	–
Interest expense	–	86,135	–
Exchange realignment	(381,617)	(471,833)	–
At 31 December 2018	28,497,908	31,024,807	–
Effect of adoption of HKFRS 16	–	–	570,048
At 1 January 2019 (restated)	**28,497,908**	**31,024,807**	**570,048**
Changes from financing cash flows	**2,891,820**	**–**	**(334,103)**
New leases	**–**	**–**	**252,746**
Interest expense	**–**	**40,209**	**45,573**
Acquisition of subsidiaries *(note 43)*	**2,065,581**	**–**	**339,182**
Exchange realignment	**(329,058)**	**(423,774)**	**(24,429)**
At 31 December 2019	**33,126,251**	**30,641,242**	**849,017**

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

(c) Total cash outflow for leases (applicable after 1 January 2019)

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

	2019
	HK$'000
Within operating activities	**189,227**
Within financing activities	**334,103**
	523,330

45. CAPITAL COMMITMENTS

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

	2019	2018
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Buildings	**2,718**	4,731
Gas pipelines and plant and machinery	**4,168,848**	2,464,989
Service concession arrangements	**820,597**	188,746
Total	**4,992,163**	2,658,466

46. RELATED PARTY DISCLOSURES

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

Name of related party	Nature of transaction	Notes	2019 HK$'000	2018 HK$'000
Non-controlling equity holders of subsidiaries and their associates:				
北京燕京啤酒集團公司 and its associates	Purchase of bottle labels[γ]	*(i)*	**79,439**	67,411
	Purchase of bottle caps[γ]	*(i)*	**44,656**	51,541
	Canning service fees paid[γ]	*(ii)*	**34,081**	11,912
	Comprehensive support service fees paid[γ]	*(iii)*	**17,665**	18,506
	Land rental expenses[γ]	*(iv)*	**2,001**	2,085
	Trademark licensing fees paid[γ]	*(v)*	**58,761**	66,889
	Less: refund for advertising subsidies[γ]	*(v)*	**(7,428)**	(2,052)
Fellow subsidiaries:				
北京北燃實業有限公司 and its subsidiaries	Sale of piped natural gas[#]	*(vi)*	**512,831**	230,593
	Engineering service income[#]	*(vii)*	**23,156**	25,741
	Comprehensive service income[#]	*(vii)*	**2,023**	7,425
	Engineering service expenses[#]	*(vii)*	**165,978**	207,020
	Comprehensive service expenses[#]	*(vii)*	**90,345**	42,886
	Building rental expenses[#]	*(viii)*	**39,582**	135,288
	Building rental income[#]	*(viii)*	**851**	–
	Purchase of goods*	*(viii)*	**49,016**	134,953
	Sale of goods[#]	*(ix)*	**36,928**	45,908
Associate:				
北京控股集團財務有限公司 ("BE Group Finance")	Interest expense[@]	*(x)*	**38,627**	64,210
	Interest income[@]	*(x)*	**21,898**	43,411

γ *These related party transactions also constitute continuing connected transactions that are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.*

\# *These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.*

@ *These related party transactions also constitute continuing connected transactions that are subject to the announcement, reporting and annual review requirements but are exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.*

46. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Notes:

(i) The purchase prices for bottle labels and bottle caps were determined by reference to the agreed prices for the preceding year and an annual adjustment determined by reference to the price index in Beijing in the preceding year.

(ii) The canning service fees were charged at a rate equal to the costs of the canning services incurred by Yanjing Beer Group plus a mutually-agreed profit margin.

(iii) The comprehensive support service fees paid include the following:

– fees for security and canteen services which were determined based on the annual cost of labour, depreciation and maintenance for the preceding year and an annual adjustment by reference to the price index in Beijing; and

– rental expenses, related to the premises occupied and used by Yanjing Brewery as its office, canteen and staff dormitories, which were determined by reference to the prevailing market rentals at the time when the relevant agreements were entered into.

(iv) The land rental expenses were charged at a mutually-agreed amount of RMB1,761,000 (2018: RMB1,751,000) per annum.

(v) The trademark licensing fees paid were for the use of the "Yanjing" trademark and were determined based on 1% (2018: 1%) of the annual sales of beer and mineral water products made by Yanjing Brewery and at a rate of RMB0.008 (2018: RMB0.008) per bottle of beer sold by the subsidiaries of Yanjing Brewery. Yanjing Brewery Group would refund 20% of the trademark licensing fees from sales of beer received from Yanjing Brewery for the use by Yanjing Brewery to develop and promote the "Yanjing" trademark.

(vi) The selling price of piped natural gas was prescribed by the PRC government.

(vii) The service fees were determined by reference to the then prevailing market rates and set at prices not higher than the guidance prices set by the PRC government.

(viii) The purchase prices of goods and the building rentals were determined by reference to the then prevailing market rates.

(ix) The selling prices of goods were determined on a cost-plus basis.

46. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Notes: (Continued)

(x) BE Group Finance is a 38.78% owned associate of the Group and also a subsidiary of Beijing Enterprises Group. BE Group Finance was established to act as a platform for members of Beijing Enterprises Group for the provision of intra-group loan facilities through financial products including deposit-taking, money-lending and custodian services.

On 30 December 2016, the Company and BE Group Finance entered into a deposit agreement (the "Deposit Agreement") whereby the Company and BE Group Finance will continue to carry out transactions under a deposit services master agreement (the "Deposit Services Master Agreement") for a further period of three years from 1 January 2017 to 31 December 2019, with terms and conditions substantially the same as those under the Deposit Services Master Agreement. The revised daily aggregate of deposits placed by the Group with BE Group Finance (including any interest accrued thereon) during the term of the Deposit Agreement will not exceed HK$2,200 million.

On 19 October 2017, the Company and BE Group Finance entered into a supplementary agreement (the "Supplementary Agreement") whereby the annual cap was increased to HK$2,900 million during the remaining term of the Deposit Agreement, i.e., from 19 October 2017 to 31 December 2019.

Interest rates on deposits placed in and loans offered by BE Group Finance denominated in RMB were determined by reference to the then prevailing market rates offered by the People's Bank of China, while the related interest rates for deposits and loans denominated in other currencies were determined by reference to the then prevailing market rates offered by major banks in the PRC.

The amount of deposits placed by the Group with BE Group Finance and the amount of loans borrowed by the Group from BE Group Finance as at the end of the reporting period are disclosed in notes 30 and 34(b)(ii) to the financial statements, respectively.

(b) Outstanding balances with related parties

(i) Details of the Group's balances with related parties included in cash and cash equivalents, prepayments, other receivables and other assets, bank and other borrowings and other payables, accruals and contract liabilities are disclosed in notes 27, 28, 30, 34(b)(ii) and 41 to the financial statements.

(ii) Details of the Group's trade balances with fellow subsidiaries and a joint venture included in trade receivables and trade and bills payables are disclosed in notes 26(a) and 40 to the financial statements.

46. RELATED PARTY DISCLOSURES *(Continued)*

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

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the year, the Group has transactions with Other SOEs including, but not limited to, the sale of piped natural gas, bank deposits and borrowings, and utilities consumptions. The directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the Company's directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(d) Compensation of key management personnel of the Group

	2019 ***HK$'000***	2018 *HK$'000*
Short term employee benefits	**17,610**	26,552
Pension scheme contributions	**29**	29
Total compensation paid to key management personnel	**17,639**	26,581

Further details of directors' emoluments are included in note 10 to the financial statements.

47. FINANCIAL INSTRUMENTS BY CATEGORY

Save certain equity investments being designated as equity investments at fair value through other comprehensive income and a fund being classified as a financial asset mandatorily measured at fair value through profit or loss, as further detailed in notes 23 and 24 to the financial statements, respectively, all financial assets and financial liabilities of the Group as at 31 December 2019 and 2018 were classified as financial assets and financial liabilities measured at amortised cost.

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

As disclosed in notes 23 and 24 to the financial statements, the listed equity investments of the Group are stated at fair value based on their quoted market prices (as categorised within Level 1 of the fair value hierarchy), and the unlisted fund investment of the Group is stated at fair value based on a market-based valuation (as categorised within Level 3 of the fair value hierarchy).

The fair value of the unlisted fund investment which is classified as a financial asset at fair value through profit or loss (note 24) has been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the Company's directors to determine comparable companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to book ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the equity value of the comparable company by a book value measure. The trading multiple is then discounted for considerations such as illiquidity nature of the investment. The discounted multiple is applied to the corresponding earnings measure of the unlisted investment to measure the fair value. The Company's directors believe that the estimated fair value of the unlisted fund investment resulting from the valuation technique, which is recorded in the consolidated statement of financial position, is reasonable, and that it was the most appropriate value as at the end of the reporting period. Management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model and has quantified this as a reduction in fair value of approximately HK$49 million, using less favourable assumptions, and an increase in fair value of approximately HK$49 million, using more favourable assumptions.

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Below is a summary of significant unobservable inputs to the valuation of the unlisted fund investment together with a quantitative sensitivity analysis as at 31 December 2019:

Valuation technique	Significant unobservable inputs	Values	Sensitivity of fair value to the inputs
Valuation multiples	Average EV/EBITDA multiple of peers	3.2 to 13.4 (2018: 3.0 to 11.3)	1% (2018: 1%) increase/decrease in multiple would result in an increase/decrease in fair value by HK$8,640,000 (2018: HK$10,944,000)
	Average P/B multiple of peers	0.8 to 4.2 (2018: 1.0 to 6.3)	1% (2018: 1%) increase/decrease in multiple would result in an increase/decrease in fair value by HK$14,014,000 (2018: HK$12,742,000)
	Discount for lack of marketability	14.4% (2018: 14.4%)	1% (2018: 1%) increase/decrease in discount would result in a decrease/increase in fair value by HK$26,215,000 (2018: HK$34,232,000)

The discount for lack of marketability represents the amount of discount determined by the Group that market participants would take into account when pricing the investment.

For other non-current financial assets and liabilities, in the opinion of the directors of the Company, since their carrying amounts are not significantly different from their respective fair values, no disclosure of the fair values of these financial instruments is made.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, the guaranteed bonds and notes and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as equity and fund investments, trade receivables, contract assets, other receivables and other assets, trade and bills payables, other payables, accruals and contract liabilities, receivables under service concession arrangements and amounts due from/to holding companies, fellow subsidiaries, associates, joint ventures, and related parties.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and fair value risk. The board of directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations.

Banks and other borrowings, the guaranteed bonds and notes, cash and short term deposits are stated at amortised cost and not revalued. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

The following tables set out the carrying amounts, by maturity, of the Group's interest-bearing financial instruments as at the end of the reporting period that are exposed to interest rate risk:

	Carrying amount		Effective interest rate	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***%***	*%*
Floating rate:				
Restricted cash and pledged deposits	**36,701**	39,983	**0.35**	0.35
Cash and cash equivalents	**10,546,688**	10,048,152	**0.35**	0.35
Bank and other borrowings	**30,128,023**	26,151,731	**3.89**	3.04
Fixed rate:				
Cash and cash equivalents	**11,612,233**	7,887,344	**1.10**	1.10
Bank and other borrowings	**2,840,069**	2,196,201	**3.84**	3.33
Guaranteed bonds and notes	**30,641,242**	31,024,807	**3.40**	3.39

At 31 December 2019, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK$82 million (2018: HK$87 million).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the beginning of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis was performed on the same basis for 2018.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China and Germany, the Group's financial position can be affected significantly by movements in the RMB/HK$ exchange rate.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB/HK$ and EUR/HK$ exchange rates, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/(decrease) in profit before tax		**Increase/(decrease) in equity**	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
If Hong Kong dollar weakens against RMB by 5%	**390,825**	410,293	**3,818,961**	3,549,661
If Hong Kong dollar strengthens against RMB by 5%	**(390,825)**	(410,293)	**(3,818,961)**	(3,549,661)
If Hong Kong dollar weakens against EUR by 5%	**661**	399	**565**	672
If Hong Kong dollar strengthens against EUR by 5%	**(661)**	(399)	**(565)**	(672)

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group is exposed to credit risk arising from its piped gas operation, brewery operation and solid waste treatment operation. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on individual customer's past history of making payments when they fall due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Various companies have different credit policies, depending on markets and businesses in which they operate. Ageing analysis of trade receivables is prepared and closely monitored in order to minimise any credit risk associated with the receivables. Normally, the Group does not obtain collateral from customers. In respect of the amounts due from contract customers for contract work arising from the Group's solid waste treatment operation, the Group transacts mainly with municipal governments in different provinces in the PRC which do not have significant credit risk.

Maximum exposure and year-end staging

At 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables*	–	–	–	6,221,099	6,221,099
Financial assets included in prepayments, other receivables and other assets					
– Normal**	3,495,789	–	–	–	3,495,789
– Doubtful**	–	88,090	–	–	88,090
Receivables under service concession arrangements					
– Normal	2,477,807	–	–	–	2,477,807
Receivable under a finance lease					
– Normal	823,003	–	–	–	823,003
Restricted cash and pledged deposits					
– Not yet past due	36,701	–	–	–	36,701
Cash and cash equivalents					
– Not yet past due	22,158,921	–	–	–	22,158,921
	28,992,221	88,090	–	6,221,099	35,301,410

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Maximum exposure and year-end staging (Continued)

At 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables*	–	–	–	5,216,897	5,216,897
Financial assets included in prepayments, other receivables and other assets					
– Normal**	3,962,968	–	–	–	3,962,968
Receivables under service concession arrangements					
– Normal	1,931,397	–	–	–	1,931,397
Receivable under a finance lease					
– Normal	927,832	–	–	–	927,832
Restricted cash and pledged deposits					
– Not yet past due	39,983	–	–	–	39,983
Cash and cash equivalents					
– Not yet past due	17,935,496	–	–	–	17,935,496
	24,797,676	–	–	5,216,897	30,014,573

* *For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 26 to the financial statements, respectively.*

** *The credit quality of the financial assets included in prepayments, other receivables and other assets are considered as "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 as "doubtful".*

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of bank loans, other loans, guaranteed bonds and notes. In addition, banking facilities have been put in place for contingency purposes.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of short term loans to cover expected cash demands, subject to approval by the management of the Group. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities (other than defined benefit obligations) as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

At 31 December 2019

	On demand or within one year *HK$'000*	In the second year *HK$'000*	In the third to fifth years, inclusive *HK$'000*	Beyond five years *HK$'000*	Total *HK$'000*
Trade and bills payables	4,508,343	–	–	–	4,508,343
Accruals and other liabilities	17,053,044	171,710	–	–	17,224,754
Due to holding companies	2,386,965	–	–	–	2,386,965
Due to related parties	734,242	–	–	–	734,242
Bank and other borrowings	7,626,464	11,104,087	13,667,145	3,518,194	35,915,890
Guaranteed bonds and notes	5,391,391	5,520,903	18,431,841	9,195,550	38,539,685
Lease liabilities	243,434	201,988	280,505	453,108	1,179,035
	37,943,883	16,998,688	32,379,491	13,166,852	100,488,914

At 31 December 2018

	On demand or within one year *HK$'000*	In the second year *HK$'000*	In the third to fifth years, inclusive *HK$'000*	Beyond five years *HK$'000*	Total *HK$'000*
Trade and bills payables	4,504,712	–	–	–	4,504,712
Accruals and other liabilities	17,558,914	205,198	–	–	17,764,112
Due to holding companies	2,531,598	–	–	–	2,531,598
Due to related parties	525,665	–	–	–	525,665
Bank and other borrowings	1,600,036	5,268,404	22,603,991	1,880,300	31,352,731
Guaranteed bonds and notes	1,057,651	5,547,651	23,779,338	9,520,575	39,905,215
	27,778,576	11,021,253	46,383,329	11,400,875	96,584,033

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair value risk

The Group is exposed to fair value risk, mainly arising from its listed equity investments and unlisted fund investment. The fair values of the equity investments and unlisted fund at the end of the reporting period are determined based on quoted market prices and a valuation performed by an independent professional valuer, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the fair value of these investments, with all other variables held constant, of the Group's profit before tax and equity attributable to shareholders of the Company:

	Increase/(decrease) in profit before tax		Increase/(decrease) in equity	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
If fair values increased by 5%	**113,262**	115,073	**211,403**	200,559
If fair values decreased by 5%	**(113,262)**	(115,073)	**(211,403)**	(200,559)

In addition, the market value of the Group's investment in an investee, which is accounted for using the equity method of accounting, was lower than its then carrying amount. Accordingly, the Group carried out an impairment testing to determine whether the investment in the investee is impaired. The recoverable amount of the investment is determined at the higher of the value in use and the fair value less costs of disposal. The value in use of the investment in the investee is determined with reference to a financial forecast approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually, and its fair value less costs to sell is determined based on the quoted market price of the investee. Based on the result of the impairment testing, in the opinion of the directors of the Company, an impairment loss is recognised in profit or loss for the year ended 31 December 2019 against the Group's investment in the investee.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern 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 adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

Depending on the market conditions and funding arrangements, if at any time, repurchase of the Company's shares will lead to an enhancement of the net asset value per share and/or earnings per share of the Group, the directors will authorise such transactions, when appropriate.

The Group monitors capital using a net gearing ratio, which is net borrowing divided by the total equity. Net borrowing includes total bank and other borrowings, guaranteed bonds and notes less cash and bank balances (including restricted cash and pledged deposits). The net gearing ratio as at the end of the reporting period is as follows:

	2019	2018
	HK$'000	*HK$'000*
Bank and other borrowings	**33,126,251**	28,497,908
Guaranteed bonds and notes	**30,641,242**	31,024,807
Less: Cash and bank balances	**(22,195,622)**	(17,975,479)
Net borrowing	**41,571,871**	41,547,236
Total equity	**87,014,827**	81,015,372
Gearing ratio	**47.8%**	51.3%

50. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, international crude oil price has dropped significantly and the outbreak of novel coronavirus (COVID-19) epidemic in early 2020 has led to a series of precautionary and control measures implemented across the globe. These events have had and may continue to have adverse impacts on certain operations of the Group and associates. Owing to the inherent nature and unpredictability of (i) the future movement in the international crude oil price; and (ii) the future development of the COVID-19 virus epidemic, including epidemic preventive measures imposed by countries in which the Group has operations and the duration of the epidemic, the degree of the adverse impacts of these events and their resulting financial impacts on the Group cannot be reasonably estimated at this stage.

51. COMPARATIVE AMOUNTS

As further explained in note 3.2(a) to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, i.e., HKAS 17, and related interpretations.

In addition, certain comparative amounts have been reclassified to conform to the current year's presentation.

52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2019	2018
	HK$'000	*HK$'000*
ASSETS		
Non-current assets:		
Property, plant and equipment	**2,118**	3,083
Investment properties	**56,914**	56,914
Right-of-use assets	**47,196**	–
Investments in subsidiaries	**72,860,922**	68,334,620
Investments in associates	**121,013**	332,687
Equity investments at fair value through other comprehensive income	**1,256,081**	1,256,081
Total non-current assets	**74,344,244**	69,983,385
Current assets:		
Trade receivables	**–**	1,004
Prepayments, other receivables and other assets	**301,659**	118,225
Cash and cash equivalents	**112,006**	597,402
Total current assets	**413,665**	716,631
TOTAL ASSETS	**74,757,909**	70,700,016

52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2019	2018
	HK$'000	*HK$'000*
EQUITY AND LIABILITIES		
Equity:		
Share capital	**30,401,883**	30,401,883
Reserves *(note)*	**941,927**	1,023,134
TOTAL EQUITY	**31,343,810**	31,425,017
Non-current liabilities:		
Bank and other borrowings	**12,784,292**	16,676,765
Lease liabilities	**31,146**	–
Total non-current liabilities	**12,815,438**	16,676,765
Current liabilities:		
Other payables and accruals	**1,654,192**	1,760,339
Due to subsidiaries	**23,168,136**	20,452,523
Income tax payable	**85,372**	85,372
Bank and other borrowings	**5,674,767**	300,000
Lease liabilities	**16,194**	–
Total current liabilities	**30,598,661**	22,598,234
TOTAL LIABILITIES	**43,414,099**	39,274,999
TOTAL EQUITY AND LIABILITIES	**74,757,909**	70,700,016

Hou Zibo
Director

Tam Chun Fai
Director

52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

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

	Capital reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Property revaluation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2018	13,220	(22,773)	17,561	1,025,283	1,033,291
Profit for the year and total comprehensive income for the year	–	–	–	1,251,896	1,251,896
Final 2017 dividend	–	–	–	(858,196)	(858,196)
Interim 2018 dividend	–	–	–	(403,857)	(403,857)
At 31 December 2018 and 1 January 2019	13,220	(22,773)	17,561	1,015,126	1,023,134
Profit for the year and total comprehensive income for the year	–	–	–	1,344,913	1,344,913
Final 2018 dividend	–	–	–	(921,299)	(921,299)
Interim 2019 dividend	–	–	–	(504,821)	(504,821)
At 31 December 2019	13,220	(22,773)	17,561	933,919	941,927

53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2020.

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