

# BEIJING ENTERPRISES HOLDINGS LIMITED

STOCK CODE : 392

ANNUAL REPORT 2019



北京控股有限公司  
BEIJING ENTERPRISES HOLDINGS LIMITED



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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr. Hou Zibo (*Chairman & CEO*)  
Mr. Li Yongcheng (*Vice Chairman*)  
Mr. Zhao Xiaodong (*Vice Chairman*)  
Mr. Jiang Xinhao (*Vice President*)  
Mr. Tam Chun Fai  
(*Chief Financial Officer & Company Secretary*)

### Independent Non-Executive Directors

Mr. Wu Jiesi  
Mr. Lam Hoi Ham  
Dr. Sze Chi Ching  
Dr. Yu Sun Say

## AUDIT COMMITTEE

Mr. Wu Jiesi  
Mr. Lam Hoi Ham (*Committee Chairman*)  
Dr. Yu Sun Say

## REMUNERATION COMMITTEE

Mr. Hou Zibo  
Mr. Wu Jiesi (*Committee Chairman*)  
Mr. Lam Hoi Ham

## NOMINATION COMMITTEE

Mr. Hou Zibo (*Committee Chairman*)  
Mr. Lam Hoi Ham  
Dr. Yu Sun Say

## INVESTMENT COMMITTEE

Mr. Hou Zibo (*Committee Chairman*)  
Mr. Jiang Xinhao  
Mr. Lam Hoi Ham  
Dr. Yu Sun Say

## COMPANY SECRETARY

Mr. Tam Chun Fai *CPA CFA*

## STOCK CODE

392

## WEBSITE

[www.behl.com.hk](http://www.behl.com.hk)

## SHARE REGISTRAR

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

## REGISTERED OFFICE

66/F., Central Plaza,  
18 Harbour Road,  
Wanchai, Hong Kong.  
Tel: (852) 2915 2898  
Fax: (852) 2857 5084

## AUDITOR

Ernst & Young

# CORPORATE INFORMATION

## LEGAL ADVISERS

### Hong Kong Law

Mayer Brown

### PRC Law

Haiwen & Partners

## PRINCIPAL BANKERS

### In Hong Kong

Bank of China, Hong Kong Branch

Bank of Communications, Hong Kong Branch

DBS Bank Ltd., Hong Kong Branch

### In Mainland China

Agricultural Bank of China

Bank of China

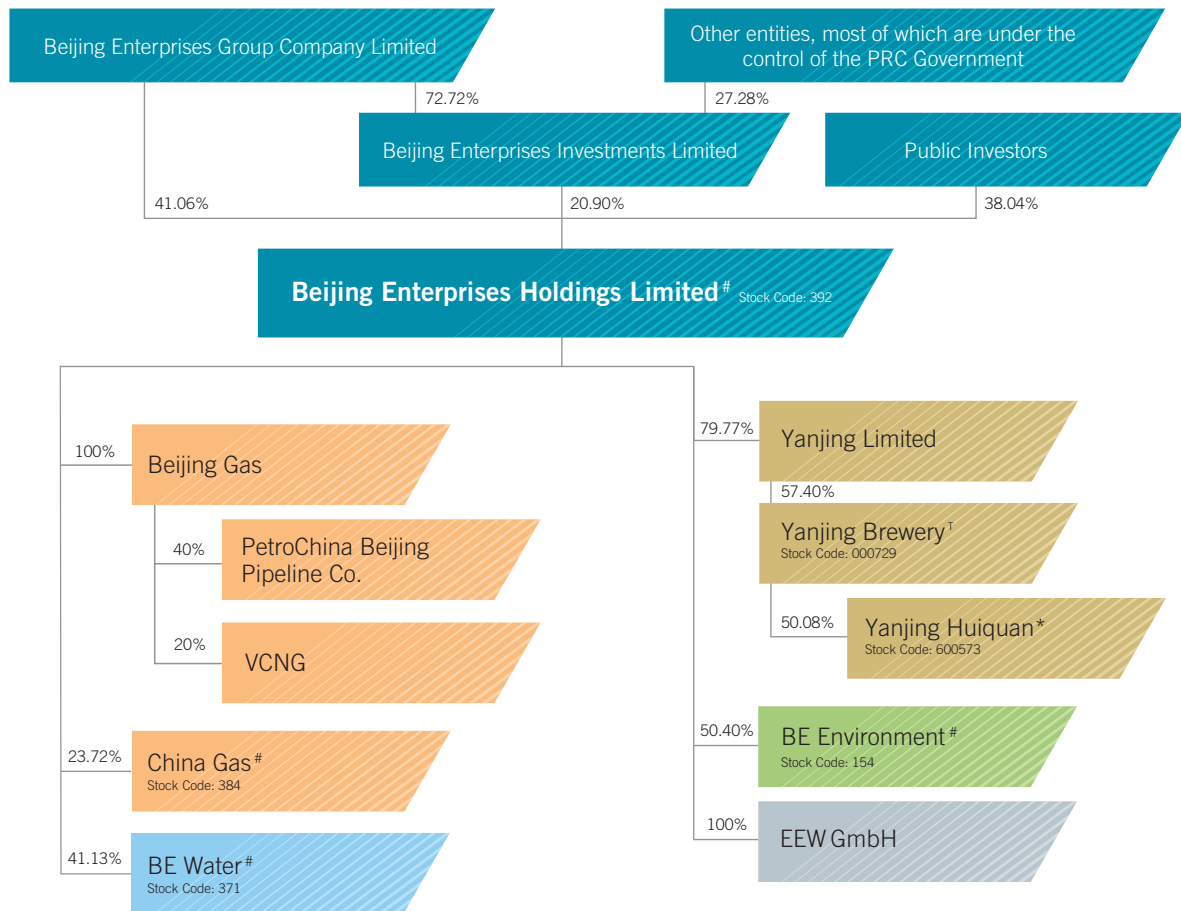
China Construction Bank

The Industrial and Commercial Bank of China

Bank of Beijing

# CORPORATE STRUCTURE

As at 31 December 2019



\* Listed on The Shanghai Stock Exchange  
 T Listed on The Shenzhen Stock Exchange  
 # Listed on The Main Board of The Hong Kong Stock Exchange

# FINANCIAL HIGHLIGHTS

<b>Financial Highlights for the year ended 31 December</b>	<b>2019 HK\$'000</b>	<b>2018 HK\$'000</b>	<b>Change</b>
Turnover	<b>67,783,028</b>	67,764,770	<b>0.0%</b>
Gross profit	<b>10,946,137</b>	10,563,665	<b>3.6%</b>
Profit for the year	<b>8,573,609</b>	7,936,641	<b>8.0%</b>
Profit attributable to shareholders of the Company	<b>8,054,780</b>	7,577,383	<b>6.3%</b>
Basic and diluted EPS (in HK dollars)	<b>6.38</b>	6.00	<b>6.3%</b>
Total dividend per share (in HK dollars)	<b>1.14</b>	1.05	<b>8.6%</b>
EBIT	<b>11,790,946</b>	11,073,195	<b>6.5%</b>
EBITDA	<b>15,949,682</b>	15,023,388	<b>6.2%</b>
Total assets	<b>185,806,276</b>	174,496,280	<b>6.5%</b>
Bank balance and cash	<b>22,158,921</b>	17,935,496	<b>23.5%</b>
Shareholders' equity	<b>75,281,639</b>	69,672,617	<b>8.1%</b>

## Key financial indicators

<b>for the year ended 31 December</b>	<b>2019</b>	<b>2018</b>
Average finance costs	<b>3.6%</b>	3.3%
Current ratio (times)	<b>0.96</b>	1.12
Gross profit margin	<b>16.1%</b>	15.6%
Net gearing ratio	<b>47.8%</b>	51.3%
Net profit margin	<b>12.6%</b>	11.7%
Payout ratio (%)	<b>17.9%</b>	17.5%
Return on average equity	<b>11.1%</b>	11.0%

### Definitions:

- **Average finance costs**  
Total interest expenses/Average borrowing for the year
- **Current ratio**  
Current assets/Current liabilities
- **Gross profit margin**  
Gross profit/Turnover
- **Net gearing ratio**  
Net borrowing/Total equity
- **Net profit margin**  
Net profit for the year/Turnover
- **Payout ratio**  
Dividend per share/Earnings per share
- **Return on average equity**  
Profit attributable to shareholders of the Company/Average equity attributable to equity holders of the Company

# CHAIRMAN'S STATEMENT

In 2019, global economic growth had slowed down and risk of development uncertainty had intensified. Affected by the uncertainties such as the Sino-US trade war and geopolitics, the Chinese economy also encountered greater downward pressure. Beijing Enterprises Holdings Limited (the “Company” or the “Group”) actively responded to the economic development changes both domestically and abroad, coordinated the facilitation of key tasks, adhered to the philosophy of high-quality development, and achieved a stable growth in operating results.

According to the financial statements prepared under the HKFRSs, the Company achieved an operating revenue of HK\$67.78 billion in 2019, which was comparable with that of last year. The EBITDA amounted to approximately HK\$15.95 billion, increased by 6.2% when compared to last year. Profit attributable to shareholders of the Company amounted to HK\$8.05 billion, representing a year-on-year increase of 6.3%. Basic and diluted earnings per share amounted to HK\$6.38, representing a year-on-year increase of 6.3%. The Board proposed the distribution of a final dividend of HK74 cents per share.

For the gas business, Beijing Gas Group Company Limited (“Beijing Gas”) continued to enhance its ability in assuring the stable supply of natural gas for the capital city. Beijing Gas devoted enormous resources to the markets in Beijing and explored its markets outside while establishing the value-added business coverage gradually to optimize the supply and marketing ecosystem.

For the beer business, Beijing Yanjing Brewery Co., Ltd. (“Yanjing Brewery”) explored innovative development path and growth model, facilitated the construction of base market steadily and propelled the refined transformation of market management albeit under competitive market environment. In terms of sales, Yanjing Brewery expanded the supply of personalised high-end products, developed new models for its online customised marketing and created new retail marketing means, thereby achieved interim progress in improving its quality and efficiency.





# CHAIRMAN'S STATEMENT

For the water treatment and environmental business, by adhering to the strategic goal of building a dual platform of “asset management and operation management”, Beijing Enterprises Water Group Limited (“BE Water”, stock code: 371) continued its implementation in transforming to become an asset-light enterprise. BE Water comprehensively improved four major quality elements, namely operation quality, asset quality, risk control quality and service quality, to accelerate the transformation from high-speed development to high-quality development.

The solid waste treatment business achieved solid operation and management achievements in 2019 on the basis of strengthening its safety management and on condition of environmental emissions meeting the standards. At the same time, the advanced construction standards, operating standards and best applicable technologies provided by EEW Energy from Waste GmbH (“EEW GmbH”), combined with the national conditions of the PRC, were used to service actual production with a view to further promote project efficiency improvement further in lieu of the national conditions of the PRC.

2020 is an important year for the Group to achieve industrial strategic upgrading while adhering to the philosophy of high-quality development. Affected by the unexpected novel coronavirus (COVID-19) pneumonia epidemic, uncertain development situation for the year is intensifying and industry market environment is changing rapidly. The Group will proactively respond to the economic situation both domestically and abroad, mitigate the impact and pressure caused by the changes in policies, industries and market environments, and ensure stable production and operation under the premise of secured and controllable conditions, so as to minimize the epidemic impact. In the long run, the Group will also fully leverage the resource advantages of Beijing and Hong Kong, international advanced technologies and production capacity of Beijing and Hong Kong fully to enhance its core competitiveness comprehensively. The Group will also focus on the harmonious development of our own business with the economy, society and environment, and proactively perform various social responsibilities. We will exert positive impact on social development and environmental construction to reciprocate the support and understanding from our shareholders and all sectors of the society.

**Hou Zibo**

*Chairman and CEO*

Hong Kong

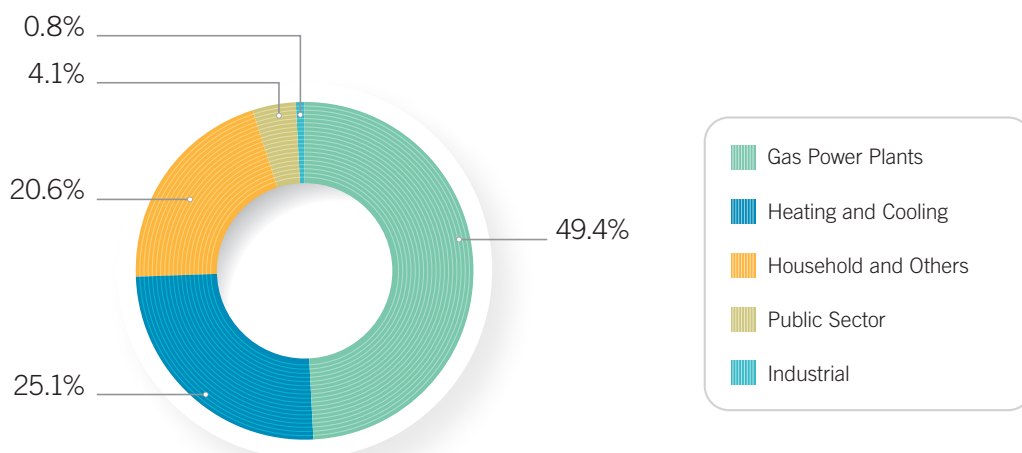
31 March 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## I. BUSINESS REVIEW

### Natural Gas Distribution Business of Beijing Gas

Beijing Gas Group Company Limited (“Beijing Gas”) recorded a revenue of HK\$47.52 billion in 2019, representing a year-on-year decrease of 2.3%. Profit before taxation from principal businesses (including natural gas distribution business, natural gas transmission business and VCNG of Rosneft) was HK\$5.44 billion, representing a year-on-year decrease of 5.2%. The decrease in both revenue and profit before tax was mainly due to the depreciation of Renminbi against Hong Kong dollars by 4.5% on average as compared to the previous year. Beijing Gas accomplished an aggregate gas sales volume of 17.28 billion cubic meters after combining with that of the subsidiaries outside Beijing, representing a year-on-year increase of 3.3%. The gas sales volume accomplished inside Beijing amounted to 16.61 billion cubic meters, representing a year-on-year decrease of 1.3%, which was mainly due to the fact that the temperature in winter in Beijing was relatively warm. An analysis of natural gas sales volume inside Beijing by subscriber sector is shown as follows:



In 2019, Beijing Gas developed 142,000 new household subscribers and 7,174 new public sector subscribers. New heating boiler subscribers with a total capacity of 3,029 t/h were developed. As at 31 December 2019, Beijing Gas had a total of over 6.33 million piped gas subscribers in Beijing and approximately 23,800 kilometers of natural gas pipelines in operation. Beijing Gas’s capital expenditure for the year amounted to approximately HK\$2.73 billion.

# MANAGEMENT DISCUSSION AND ANALYSIS

## I. BUSINESS REVIEW *(Continued)*

### Natural Gas Distribution Business of Beijing Gas *(Continued)*

Beijing Gas accelerated the construction of its major projects in 2019, including the facilitation of the LNG emergency reserve project in Tianjin Nangang and the Tangshan LNG storage tank phase II project, so as to further improve its ability in assuring the stable supply of natural gas for the capital city. In addition, Beijing Gas devoted enormous resources to the markets in Beijing and strengthened its leading position in natural gas supply in the region through equity acquisitions. It also strived to establish a value-added business system gradually to enrich the sales mix of its own products, such as wall-hung boilers and gas water heaters, so as to expand the service scope. At the same time, Beijing Gas constantly improved its service quality and operational management ability, and continued to reduce wastage rate.



### Natural Gas Transmission Business

In 2019, PetroChina Beijing Gas Pipeline Co., Ltd. (“PetroChina Beijing Pipeline Co.”) implemented enhanced safety management proactively, accelerated interconnected project constructions, and maintained secured and stable pipeline operations, so as to achieve the “dual-improvement” in gas transmission volume and efficiency. PetroChina Beijing Pipeline Co. recorded a gas transmission volume of 51.85 billion cubic meters during the year, representing a year-on-year growth of 4.97%. Beijing Gas’s share of net profit after taxation, through its 40% equity interests in PetroChina Beijing Pipeline Co., increased by 10.8% over the year to HK\$1.86 billion. The total capital expenditure of PetroChina Beijing Pipeline Co. for the year was HK\$3.79 billion.

### VCNG of Rosneft

The PJSC Verkhnechonskneftegaz (“VCNG”) project of Rosneft Oil Company achieved its petroleum sales of approximately 7.77 million tons in 2019. Beijing Gas shared a net operating profit after taxation of HK\$1.21 billion through its 20% equity interest in VCNG, representing a year-on-year decrease of 10.6%, which was mainly due to the impact of oil price fluctuations.

### China Gas

China Gas Holdings Limited (“China Gas”, stock code: 384) achieved a profit attributable to the Group of HK\$2.12 billion in 2019, representing a year-on-year increase of 24.8%. During the six months ended 30 September 2019,



China Gas achieved a sales volume of 11.84 billion cubic meters in natural gas, representing an increase of 7.8% over the corresponding period. It achieved a sales volume of 1.97 million tons in LPG, representing an increase of 0.5% over the corresponding period. Approximately 2.93 million households were newly connected and the cumulative number of households connected reached 32.61 million as at 30 September 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## I. BUSINESS REVIEW *(Continued)*

### Beer Business

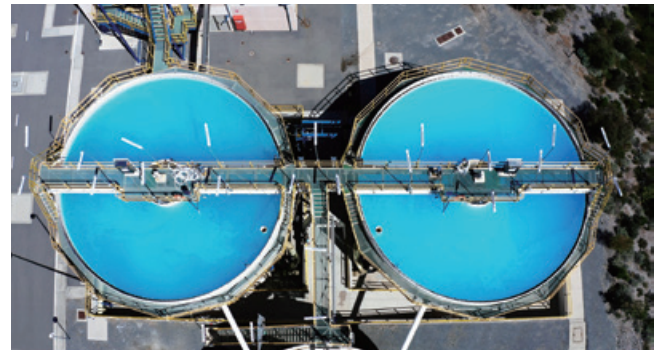
In 2019, the beer market consumption in China remained weak due to sluggish economic recovery as well as the adverse effect of rainy summer in Southern China. Beijing Yanjing Brewery Co., Ltd. (“Yanjing Brewery”) continued to facilitate its adjustments on product structure, and developed and promoted new products, such as Yanjing U8(燕京U8), to expand the supply of personalised high-end products. It explored pilot marketing through integrating the online and offline channels and developed new models for its online customised marketing to create new retail marketing means.



In 2019, Yanjing Brewery recorded a sales volume of 3.81 million kilolitres, of which, the sales volume of Yanjing main brand was 2.48 million kilolitres, sales volume of “1+3” brand was 3.51 million kilolitres. The revenue that Yanjing Brewery recorded was HK\$11.83 billion during the year with its profit before taxation of HK\$407 million. The capital expenditure of Yanjing Brewery for the year was approximately HK\$650 million.

### Water and Environmental Business

By adhering to the strategic goal of “building a dual platform of asset management and operation management”, Beijing Enterprises Water Group Limited (“BE Water”, stock code: 371) implemented its transformation to become an asset-light enterprise, and devoted enormous resources in three professional directions, namely investment, construction and operation, with a view to ensure the continuous improvement of operating fundamentals. During the year, BE Water and Three Gorges Corporation entered into an agreement to deepen the cooperation and jointly awarded the Yueyang Project tender, launching a pilot project of urban dual platform cooperation model, and participating in the formation of a security fund for Yangtze River with a scale of RMB100 billion. BE Water’s operating revenue in 2019 increased by 15% to HK\$28.19 billion due to the increase in operating income from its integrated treatment projects and water treatment services, and profit attributable to its shareholders increased by 10% to HK\$4.93 billion. The net profit attributable to the Group was HK\$2.03 billion, a year-on-year increase of 6.8%.



As at 31 December 2019, BE Water already participated in 1,252 water plants which are or will be in operation, including 1,058 sewage treatment plants, 162 water distribution plants, 30 reclaimed water treatment plants and 2 seawater desalination plants, with a total design capacity of 39.39 million tons/day. The net increase in daily design capacity for the year was 2.564 million tons/day.



# MANAGEMENT DISCUSSION AND ANALYSIS

## I. BUSINESS REVIEW *(Continued)*

### Solid Waste Treatment Business

At the end of the 2019, the solid waste treatment business segment of the Group realised a waste incineration and power generation integrated treatment capacity of 26,932 tons/day and hazardous waste treatment capacity of 115,000 tons/year. During the year, EEW Energy from Waste GmbH (“EEW GmbH”) achieved an operating revenue of HK\$5.32 billion, representing a year-on-year increase of 3.9%. Beijing Enterprises Environment Group Limited (“BE Environment”, stock code: 154) and Beijing Enterprises Holdings Environment



Technology Co., Ltd (“BEHET”) together achieved a total revenue of HK\$1.64 billion, and their profit attributable to shareholders of the Group amounted to approximately HK\$100 million. The capital expenditure of solid waste related business (both domestically and overseas) for the year amounted to approximately HK\$2.37 billion.

In 2019, EEW GmbH accomplished a waste treatment volume of 4.717 million tons, sales of electricity of 1.773 billion KWH, sales of heat of 790 million KWH and sales of steam of 2.176 billion KWH. The domestic solid waste treatment business of the Group achieved a waste treatment volume of 4.26 million tons and accomplished an on-grid power generation volume of 1.22 billion KWH. With the gradual advancement of the technical transformation and projects expansion for a batch of domestic projects in responding to new environmental protection and emission standards, the waste incineration power generation treatment capacity of the Group will also boost up constantly, so as to lay the foundation for sustainable operation returns.

### Material Capital Operation

In 2019, the Group invested HK\$550 million to subscribe for the private placement of shares of BE Water together with Three Gorges Corporation at the same price, in support of BE Water’s placement financing of approximately HK\$2.57 billion and its strategic cooperation with Three Gorges Corporation of protecting the Yangtze River, which once again demonstrated the Group’s confidence in water industry development to the capital market.

### Principal Risks – Exchange Rate Fluctuation

The Group primarily operates its businesses in the PRC, therefore, most of its revenues and expenses are transacted in RMB. The value of RMB against Hong Kong dollar and other currencies may fluctuate and is affected by, among other things, the changes in the PRC’s economic conditions and policies. The conversion of RMB into foreign currencies, including Hong Kong dollar and U.S. Dollar, has been based on rates guided by the People’s Bank of China.

During 2019, the exchange rates of RMB against Hong Kong dollar and U.S. Dollar went weak. However, the Board did not expect the mild fluctuation of RMB’s exchange rate in the future will have material adverse impact on the operations of the Group. As the Euro assets and Euro debts of the Group were basically matched, the Group was less affected by the fluctuation of Euro exchange rate.



# MANAGEMENT DISCUSSION AND ANALYSIS

## I. BUSINESS REVIEW *(Continued)*

### Main Uncertainties

The Group's principal businesses include natural gas distribution, natural gas transmission, water and environmental operations, solid waste treatment and beer production. Most of the utilities related businesses are governed by policies set out by National Development and Reform Commission and may be subject to changes from time to time. The Group has maintained a proven track record on responding to relevant industry policies so that stable development could be maintained within each business sector.

## II. PROSPECTS

In the beginning of 2020, the sudden epidemic outbreak of novel coronavirus (COVID-19) pneumonia brought shocking bombardment to social and economic development. The main business segments of the Group are also affected by consumption shrinkage, dropping operating activities, and projects delay. The gas, water and solid waste environmental protection sectors that undertake the responsibility of urban operation service guarantee have fulfilled their duties and missions. While ensuring epidemic prevention and control, we ensure the stable operation and provide users with a safe and reliable gas supply, guarantee the safety of water quality and protect public health security. At present, the Group has actively and orderly implemented work and production resumption, and strives to minimize the negative impact of the pandemic.

### Natural Gas Distribution Business of Beijing Gas

Beijing Gas will adhere to its four wheel-driven model, namely "markets within and outside Beijing, radiating upstream and downstream industries", and focus on increasing the market size of the markets within and outside Beijing, LNG business, integrated energy services, value-added services and others. While deepening the existing markets in Beijing, it will strengthen the development of the markets outside Beijing. For the LNG business, Beijing Gas will focus on shaping the LNG supply with cost advantages and assure safety while leveraging various resources to promote the formation of sales scale of LNG distribution business as soon as possible, so as to lay the foundation for international LNG trade development.



### China Gas

China Gas will strive to build a new ecosystem for the 4G (LNG, CNG, LPG, PNG) energy network development. For urban gas, China Gas will continue to step up its efforts in market development. For LPG, China Gas will strategically promote the overall layout of trade and terminal business by leveraging its own upstream and downstream integrated distribution system with wharf warehousing. For the value-added business development, China Gas will fully integrate its operation, customer service and value-added service as a whole with its sizable piped natural gas and LPG service network as well as its quality customer resources.

# MANAGEMENT DISCUSSION AND ANALYSIS

## II. PROSPECTS *(Continued)*

### Beer Business

Yanjing Brewery will closely follow the development trend of the beer industry and strive to produce the best beer in China. Yanjing Brewery will improve the profitability by building a solid base market, speed up market share expansion through widening marketing channels, and increase product profitability by focusing on product structure upgrade. At the same time, Yanjing Brewery will seize the opportunities in consumption upgrade, adapt to the trend and culture of younger generations, and actively develop new products to inject vitality into the Yanjing brand and rejuvenate the brand's youth vibrancy.



### Water and Environmental Business

The Group's water and environmental business is shifting from high-speed development to quality growth. BE Water will focus on those regions, sectors and projects that have advantages to expand high-quality investment projects. BE Water will also strengthen its capacity in transforming to become an asset-light enterprise, and promote the standardization and intelligence of water plants. Taking comprehensive and continuous innovation as the first driving force, BE Water will continue to grow and strengthen the two core businesses namely urban water services and water environment comprehensive renovation. BE Water will dedicate to enhance the overall ecological value of the industry, and promote the construction of a community of shared future for the water environment globally.



### Solid Waste Treatment Business

In terms of solid waste treatment business, the Group will enhance and improve the quality and efficiency of operating project management, and strengthen the progress control of projects under construction and enhance the construction organisation and site management to shorten the transition period to commercial operation. The Group will strengthen the operation and management ability of its projects, improve the efficiency of equipment operation, and strictly control production costs to ensure the stable improvement in project quality and revenue. It will strengthen the capability of solid waste treatment business in coordinating resources, accelerate the unification of standards for technology and management, and streamline the mechanism for managing and controlling business segments. The Group will continue to strengthen the technical, operational and management exchanges between domestic projects and EEW GmbH, and facilitate the absorption, introduction and achievement transformation.



# MANAGEMENT DISCUSSION AND ANALYSIS

## III. FINANCIAL REVIEW

### Revenue

The revenue of the Group in 2019 was HK\$67.78 billion, which was basically unchanged as compared with 2018. Of which, the revenue of Beijing Gas sales was HK\$47.52 billion, representing a year-on-year decrease of 2.3%, which was mainly due to the depreciation of Renminbi against Hong Kong dollars by 4.5% on average, and accounted for 70.1% of total revenue. The revenue of beer sales was HK\$11.83 billion, which accounted for 17.4% of total revenue. The solid waste treatment businesses contributed a total revenue of HK\$8.44 billion, which accounted for 12.5% of total revenue, including the revenue of EEW GmbH amounted to HK\$5.32 billion.

### Cost of Sales

Cost of sales decreased by 0.6% to HK\$56.84 billion. Cost of sales of gas distribution business included purchase cost of natural gas as well as depreciation of piped line network. Cost of sales of brewery business included raw materials, wage expenses and absorption of certain direct overheads. Cost of sales of solid waste treatment operation included fuel charges, amortisation and waste collection costs.

### Gross Profit Margin

In 2019, the overall gross profit margin was 16.1%, up by 0.5% when compared with the 15.6% in 2018. The increase in overall gross profit margin was mainly attributable to the increase in the proportion of Yanjing Brewery's sales of high-end beer this year as well as the increase in EEW waste disposal fees as compared with last year, which increased the gross profit margin accordingly.

### Gains on Deemed Disposal of Partial Interests in Associates

During the first half of 2019, BE Water issued ordinary shares under the placement and subscription exercise. The Group recognised a gain of HK\$187 million on the deemed disposal of partial interest in an associate as a result of the decrease in shareholding in BE Water from this placement and subscription exercise.

Moreover, China Gas issued ordinary shares upon the exercise of share options by its employees. The Group recognised it as a gain on deemed disposal of partial interest in an associate of HK\$151 million.

### Other Income

Other income mainly comprised government grants of HK\$121 million; dividend income of HK\$210 million; value-added tax refund income of HK\$52.58 million; gain on transfer of assets from customers of HK\$116 million; rental income of HK\$50.31 millions; income of sales of scraps and beer bottles of Yanjing Brewery amounting to HK\$123 million and bank interest income amounting to HK\$316 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## III. FINANCIAL REVIEW *(Continued)*

### Selling and Distribution Expenses

Selling and distribution expenses of the Group in 2019 decreased by 7.6% to HK\$2.07 billion, which was mainly due to the organizational structure adjustment in 2019 by Beijing Gas to reduce sales and distribution expenses.

### Administrative Expenses

Administrative expenses of the Group in 2019 were HK\$4.85 billion, increased by 1.3% when compared to last year, which was comparable with that of last year.

### Other Operating Expenses, net

Other operating expenses, net mainly included the impairment on certain assets.

### Finance Costs

Finance costs of the Group in 2019 was HK\$2.19 billion, increased by 11% when compared to 2018, which was mainly due to the increase in bank loans.

### Share of Profits and Losses of Associates

Share of profits and losses of associates mainly included the 40% share of profit attributable to shareholders of PetroChina Beijing Pipeline Co., the 20% share of profit attributable to shareholders of VCNG, the 23.72% share of profit attributable to shareholders of China Gas and the 41.15% share of profit attributable to shareholders of BE Water.

In 2019, the Group shared the profit after taxation of PetroChina Beijing Pipeline Co. amounting to HK\$1.86 billion, the profit after taxation of VCNG amounting to HK\$1.21 billion, the profit after taxation of China Gas amounting to HK\$2.12 billion and the net profit of BE Water amounting to HK\$2.03 billion.

### Taxation

After deducting the share of profits and losses of associates and jointly-controlled entities, the effective income tax rate was 39.6%, which was lower than the 47.6% in the corresponding period of last year and was mainly due to the decrease in taxation caused by the EEW's taxation adjustment.

### Profit Attributable to Shareholders of the Company

The profit attributable to the shareholders of the Company for the year ended 31 December 2019 was HK\$8.05 billion (2018: HK\$7.58 billion).

# MANAGEMENT DISCUSSION AND ANALYSIS

## IV. FINANCIAL POSITION OF THE GROUP

### **Non-current assets**

#### *Property, plant and equipment*

The net book value of property, plant and equipment was approximately HK\$51.9 billion, which was comparable with that of last year.

#### *Other intangible assets*

Other intangible assets were mainly from EEW GmbH.

#### *Right-of-use assets*

Under the new lease standard HKFRS 16, which has come into effect on 1 January 2019, right-of-use assets represent the Group (as lessee) shall recognise a lease as a right-of-use asset in the balance sheet in accordance with the requirements of the new standard.

#### *Prepaid land premiums*

The balance was nil because under the new lease standard HKFRS 16 which has come into effect on 1 January 2019. Prepaid land premiums have been reclassified as right-of-use asset.

#### *Investments in associates*

The increase in balance by HK\$3.87 billion was mainly due to the share of attributable profits from BE Water, PetroChina Beijing Pipeline Co., VCNG and China Gas.

#### *Equity investments at fair value through other comprehensive income*

It mainly represented the fair value of Beijing Gas's investment in CNPC Capital Company Limited.

#### *Receivables under a finance lease*

The balance of receivables under a finance lease was from EEW GmbH.

#### *Financial asset at fair value through profit or loss*

It mainly represented the fair value of Beijing Gas's investment in PetroChina Pipelines Co., Ltd.



# MANAGEMENT DISCUSSION AND ANALYSIS

## IV. FINANCIAL POSITION OF THE GROUP *(Continued)*

### **Current assets**

#### *Inventories*

It mainly represented the inventory balance of Yanjing Brewery.

#### *Trade receivables*

The balance increased by HK\$813 million, which was mainly due to the increase in account receivables of Beijing Gas from power factory users during the heating season.

#### *Cash and Bank Borrowings*

As at 31 December 2019, cash and bank deposits held by the Group amounted to HK\$22.16 billion. The Group maintains sufficient banking facilities for its working capital requirements and has sufficient cash resources to finance its capital expenditures in the foreseeable future.

The Group's total borrowings amounted to HK\$63.77 billion as at 31 December 2019, which comprised, inter alia, guaranteed bonds and senior notes of US\$2.5 billion in total, Euro guaranteed bonds amounting to EUR1.3 billion and medium and long-term loans amounting to HK\$18.46 billion. Around 63.5% of the total borrowings were denominated in US and Hong Kong dollar and 27.5% in Euro. The Group had net borrowings of HK\$41.61 billion as at 31 December 2019, which was almost the same as the previous year.

### **Non-current liabilities**

#### *Bank and other borrowings*

There was an increase of HK\$4.63 billion in long-term and short-term balance in total, which was mainly due to the acquisition of Tangshan Natural Gas Co., Ltd. and consolidated its bank and other borrowings as well as new bank loans by Beijing Gas.

#### *Guaranteed bonds and notes*

During the year, the Group had not issued guaranteed bonds and notes, the balance was comparable with that of last year.

#### *Lease liabilities*

Lease liabilities are under the new lease standard HKFRS 16 which has come into effect on 1 January 2019, which requires that the Group (as lessee) shall recognise a lease asset as right-of-use asset with a corresponding lease liability to be recognised in the balance sheet according to the new standard.

# MANAGEMENT DISCUSSION AND ANALYSIS

## IV. FINANCIAL POSITION OF THE GROUP *(Continued)*

### **Non-current liabilities** *(Continued)*

#### *Provision for onerous contracts and major overhauls*

The balances were mainly from EEW GmbH.

### **Current liabilities**

#### *Other payables, accruals and contract liabilities*

The decrease in balance of HK\$178 million was comparable with that of last year.

#### *Liquidity and Capital Resource*

The downstream natural gas distribution business, plus dividend income from PetroChina Beijing Pipeline Co., dividends from 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 at the end of 2019, the issued capital of the Company amounted to 1,262,053,268 shares and the shareholders' equity was HK\$75.28 billion. Total equity was HK\$87.01 billion. The gearing ratio, which is all the interest-bearing borrowings, guaranteed bonds, notes and senior notes divided by the sum of total equity plus all interest-bearing borrowings, guaranteed bonds, notes and senior notes was 42% (2018: 42%).

Given the primarily cash nature business of natural gas distribution, brewery and water concession, the Group is benefiting from a very strong recurring cash flow and is well positioned to capture investment opportunities in the future. The Group will continue its stable dividend distribution policy targeting sustainable dividend per share growth while maintaining reasonable capital structure.

# DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**HOU Zibo**, aged 54, is the Executive Director, Chairman and CEO of the Company. Mr. Hou also serves as Vice Chairman and General Manager of Beijing Enterprises Group Company Limited. Mr. Hou graduated from the School One of Ministry of Aerospace Industry with the specialty in Structural Mechanics and China Europe International Business School with the specialty in Business Administration; possesses a master degree in engineering, an MBA degree and the title of Professor-grade Senior Engineer. He was Deputy Director of Institute 702 of Ministry of Aerospace Industry and participated in many science and research projects of the state. Subsequently, Mr. Hou acted as Director and Deputy General Manager of Beijing Jingcheng Machinery Electric Holding Co., Ltd. From 2005 to 2010, he was Deputy Director of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. Mr. Hou has extensive experience in state-owned assets management, corporate assets management and capital operations. Mr. Hou joined the Group in March 2012.

**LI Yongcheng**, aged 58, is the Executive Director and Vice Chairman of the Company. 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 Group Co., Ltd. He is currently Vice Chairman and Executive Deputy General Manager of Beijing Enterprises Group Company Limited, and is also Chairman and Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). Mr. Li possesses extensive experience and professional expertise in public utilities industry, and also has plenty of experience in enterprise operations and capital operations. Mr. Li was Vice President of the Company from August 2007 to March 2011, and subsequently re-joined the Company as Executive Director in March 2014 and was re-designated as Executive Director and Vice Chairman in March 2016.

**ZHAO Xiaodong**, aged 47, is the Executive Director and Vice Chairman of the Company. 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 Chairman of Beijing Yan Jing Beer Group Company and Chairman and General Manager of Beijing Yanjing Brewery Co., Ltd. (the shares of which are listed on the Shenzhen Stock Exchange with stock code: 000729). Mr. Zhao was appointed as Executive Director and Vice Chairman of the Company in September 2017.

## DIRECTORS AND SENIOR MANAGEMENT

**JIANG Xinhao**, aged 55, is the Executive Director and Vice President of the Company. Mr. Jiang also serves as Vice General Manager of Beijing Enterprises Group Company Limited, Executive Director of Beijing Enterprises Water Group Limited (stock code: 371) as well as Non-executive Director of China Gas Holdings Limited (stock code: 384). Mr. Jiang is a chief senior economist. He 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 Manager of the investment development department of Beijing Holdings Limited and General Manager of Beijing BHL Investment Center between May 2000 and February 2005. From January 2011 to June 2016, Mr. Jiang was Executive Director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Jiang has extensive experience in economics, finance and corporate management. Mr. Jiang joined the Group in February 2005.

**TAM Chun Fai**, aged 57, is the Executive Director, Chief Financial Officer and Company Secretary of the Company. 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 68, holds a doctorate degree in Economics. He is the Chairman of Fuhai Yintao Asset Management Co. Ltd. Mr. Wu also serves as Independent Non-executive Director of China Taiping Insurance Holdings Company Limited (stock code: 966), China Citic Bank International Limited as well as Industrial and Commercial Bank of China (Asia) Limited; Non-executive Director of Shenzhen Investment Limited (stock code: 604) and 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. From 2005 to 2008, he was the Managing Director and Chief Executive Officer of Hopson Development Holdings Limited. From September 2005 to July 2011, he was Independent Non-executive Director of China Merchants Bank Co., Ltd. (stock code: 3968). Mr. Wu was Non-executive Director and Vice Chairman of China Aoyuan Property Group Limited (stock code: 3883). He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

## DIRECTORS AND SENIOR MANAGEMENT

**LAM Hoi Ham**, *Justice of Peace*, aged 81, was 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 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 80. 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 Engraver's 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, Executive Director of the Board of Trustees of Jimei University, etc. Mr. Sze joined the Group in March 2013.

**YU Sun Say**, *G.B.M., J.P.*, aged 81. 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 2014.

### SENIOR MANAGEMENT

**ZHI Xiaoye**, aged 52, is Vice President of the Company. Mr. Zhi also serves as General Manager of Beijing Gas Group Company Limited, and Non-Executive Director and Co-Chairman of Beijing Gas Blue Sky Holdings Limited (stock code: 6828). Mr. Zhi graduated from Beijing University of Technology with a master 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 Group Company Limited as transmission branch Manager, at Beijing Dingxin New Technology Company Limited (北京市鼎新技術有限公司) as Chairman and at Beijing Gas Group Company Limited as Executive Deputy General Manager. Mr. Zhi has plenty of experience in pipe gas business and corporate management. Mr. Zhi was appointed as Vice President of the Company in July 2014.



## DIRECTORS AND SENIOR MANAGEMENT

**KE Jian**, aged 51, is Vice President of the Company. Mr. Ke also serves as an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371) and Chairman and CEO of Beijing Enterprises Environment Group Limited (stock code: 154). 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. Mr. Ke has extensive experience in finance and corporate administration. He joined the Company in 1997 and was appointed as Vice President of the Company in April 2011.

**SHA Ning**, aged 49, is Vice President of the Company. Ms. Sha also serves as an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371), and an Executive Director and Vice President of Beijing Enterprises Environment Group Limited (stock code: 154). Ms. Sha graduated from the Business and Economics Faculty of Heilongjiang Institute of Commerce in 1992, and studied Accounting in Beijing School of Business and Capital University of Economics and Business. She obtained an EMBA degree from The Hong Kong University of Science and Technology, and was granted the title of PRC chief senior accountant. Ms. Sha has accumulated extensive experience in financial management. Ms. Sha joined the Group in 2001 and has been appointed as Vice President of the Company since January 2017.

**JIN Feng**, aged 41, is Vice President of the Company. Mr. Jin studied at School of Economics and Business Administration, Beijing Normal University from 2001 to 2004 for the corporate management professional postgraduate programme. During his tenure at the research institute and general office of State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality 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 Beijing Enterprises Group Company Limited 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 Company in July 2017.

**DAI Xiaofeng**, aged 44, is Vice President of the Company. He also serves as Vice General Manager of Beijing Enterprises Group Company Limited. Mr. Dai is a PRC 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 Group Company Limited from 2006 to 2014. Mr. Dai joined the Company in 2014 and is serving the positions of Vice CFO, Assistant to Vice President and Manager of Asset Control Department. He was appointed as Vice President of the Company in December 2019.

# REPORT OF THE DIRECTORS

The Board present their report and the audited financial statements of the Group for the year ended 31 December 2019.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Further discussion and analysis of the business review required by Schedule 5 to the Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the "Management Discussion and Analysis" set out on pages 8 to 18 of this Report. This discussion forms part of this "Report of the Directors".

## 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.

## KEY PERFORMANCE INDICATORS

The key performance indicators of the Company's business are stated in the section titled "Financial Highlights" on page 5 of this Report.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

Since its inception, the Company has been upholding the social responsibility mission of "investment for a prosperous life". It formed a co-development business layout in public utility industry segment focusing on gas, water and environment, and solid waste treatment together with the beer industry through the transformation, upgrading and responsibility investment measures. In the field of environmental protection, we adhered to "sustainable development". We continued to explore and practice green, low-carbon, and environmentally friendly models of development and strengthened environmental management in production, projects, and operations. We vigorously invested and applied energy-saving and emission-reduction technologies to improve the efficiency of energy resources. Taking advantage of our core business, we actively communicated the concept of low-carbon environmental protection to the society.

# REPORT OF THE DIRECTORS

## ENVIRONMENTAL POLICIES AND PERFORMANCE *(Continued)*

In 2019, Beijing Gas continued to work proactively with Beijing Municipal Government to implement the Clean Air Action Plan, and provided diversified gas supply channels, established clean energy supply chains and enhanced capacity to ensure stable natural gas supply for the capital city through facilitating the LNG storage projects, so as to play an important role in promoting the application of clean energy.

Facing the increasingly stringent environmental protection and emission standards, the Company has carried out continuous technological innovation and management improvement for its solid waste treatment business, so as to improve its solid waste treatment efficiency and reduce emissions in projects and daily operations. As at the end of 2019, the solid waste treatment business segment of the Group realised a waste incineration and power generation integrated treatment capacity of 26,932 tons/day and our hazardous waste treatment capacity had reached 115,000 tons/year.

## COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The Board review and monitor the Group's policies and practices on compliance with legal and regulatory requirements on a regular basis. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

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

## RELATIONSHIP WITH STAKEHOLDERS

Stakeholders	Topics concerned	Response channel	Effectiveness of communication
Government and Regulatory Authorities	Lawful business operations	Daily report and communication Seminars and on-site meeting	Developed strategic cooperation with local governments
	Pay taxes according to relevant laws		
	Increase employment opportunities, promote sustainable and healthy economic development	Forum and exchange programme	Created good external environment for enterprise development
Shareholders and investors	Satisfactory investment return Good market value	Annual reports and announcements	Established good relationship with investors
		Roadshows and investors meetings	
	Transparent operation	Telephone conference with analysts	Continuous improvement on credibility with investors
	Improvement of profitability and core competitiveness	Annual general meeting	Obtained the support from investors and shareholders on material decisions
		Company website	

# REPORT OF THE DIRECTORS

Stakeholders	Topics concerned	Response channel	Effectiveness of communication
Customers	Continuous and stable supply of products	Customer forums	Continuous improvement on business operation based on customers' feedback
	High-quality and safe products	Telephone service hot-line	Efficient and timely solutions for customers' complaints
	Considerate and convenient service	Community services centers	Continuous improvement on customers service
	Smooth communication channels	Customer satisfaction survey	
Business Partner	Fair procurement	Suppliers' conference	Prepared suppliers management requirements, improved effectiveness of supply chain
	Sincerity and mutual benefit	Strategic cooperation	Facilitated co-development of upstream and downstream business partners
	Long term and stable cooperation		
Staff	Comprehensive rights and interests protection	Employee congress	Vertical and horizontal communication among staff and hierarchies
	Good platform for career development	Complaint mail box	Created a harmonious workplace
	Work-life balance	Democratic communication platform	Built a healthy and safe working environment
	Occupational health		

# REPORT OF THE DIRECTORS

Stakeholders	Topics concerned	Response channel	Effectiveness of communication
Communities and non-governmental organisations	Community development	Science activities	Employed social supervisor for inspecting and supervising service quality
	Establishment of a harmonious community	Community propaganda	Established good relationship with local community
	Improvement in the environment of the community	Participating in public welfare and environmental protection activities	Created a good external environment for the enterprise development
	Open and transparent information		
Media		Annual report and announcement	
	Financial performance	Annual and interim results presentations	Established a good relationship with media
	Corporate governance	News releases and publications	Maintained company image and received public recognition
	Information disclosure	Media interview	
		Media inquiries	
Environment	Supply of clean energy		Implemented the “Clean Air Action Plan”
	Waste treatment	Annual report and announcements	
	Practice green operation		Participated in environmental projects



# REPORT OF THE DIRECTORS

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 56 to 194.

An interim dividend of HK40 cents per ordinary share was paid on 25 October 2019. The Board recommended the payment of a final dividend of HK74 cents per share for the year ended 31 December 2019 payable to Shareholders on the register of members of the Company on 15 July 2020. Subject to the approval of Shareholders at the 2020 AGM, the final dividend will be paid on 28 July 2020.

## AGM

The 2020 AGM will be held on Thursday, 18 June 2020. The notice of the 2020 AGM, which constitutes part of the circular to Shareholders, will be sent to all Shareholders separately and will be published on the Company's website ([www.behl.com.hk](http://www.behl.com.hk)) and the HKSE's website ([www.hkexnews.hk](http://www.hkexnews.hk)).

## CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining Shareholders' eligibility to attend and vote at the 2020 AGM, and entitlement to the final dividend, the register of members will be closed. Details of such closures are set out below:

- (i) For determining eligibility to attend and vote at the 2020 AGM:

Latest time to lodge transfer documents for registration . . . . .	4:30 pm on Friday, 12 June 2020
Closure of register of members . . . . .	Monday, 15 June 2020 to Thursday, 18 June 2020 (both dates inclusive)
2020 AGM . . . . .	Thursday, 18 June 2020

# REPORT OF THE DIRECTORS

## CLOSURE OF REGISTER OF MEMBERS *(Continued)*

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration . . . . . 4:30 pm on Wednesday, 8 July 2020

Closure of register of members . . . . . Thursday, 9 July 2020 to  
Wednesday, 15 July 2020  
(both dates inclusive)

Record date . . . . . Wednesday, 15 July 2020

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2020 AGM, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

## EMPLOYEES

As at 31 December 2019, the Group had approximately 41,000 employees. The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Group's employee remuneration policy and package are periodically reviewed by the management. Apart from pension funds, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and equity of the Group for the last five financial years as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2018 is set out on pages 195 to 196. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 15 and 16 to the financial statements, respectively.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital of the Company during the year are set out in note 31 to the financial statements.

The Company currently does not have any effective share option scheme.

# REPORT OF THE DIRECTORS

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the provisions of part 6 of the Companies Ordinance amounted to HK\$933,919,000 (2018: HK\$1,015,126,000).

## MAJOR CUSTOMERS AND MAJOR SUPPLIERS

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

## DIRECTORS

Directors during the year and up to the date of this Report are:

### Executive Directors

HOU Zibo  
LI Yongcheng  
ZHAO Xiaodong  
E Meng (resigned on 3 January 2020)  
JIANG Xinhao  
TAM Chun Fai

### Independent Non-executive Directors

WU Jiesi  
LAM Hoi Ham  
SZE Chi Ching  
YU Sun Say  
MA She (resigned on 21 January 2020)

# REPORT OF THE DIRECTORS

## DIRECTORS OF SUBSIDIARIES

The names of directors who have served on the boards of the principal subsidiaries of the Company during the financial year ended 31 December 2019 or during the period from 1 January 2020 up to the date of this Report are available on the Company's website ([www.behl.com.hk](http://www.behl.com.hk)).

## BOARD CHANGES AND CHANGES IN DIRECTORS' INFORMATION

During the year under review and up to the date of this report, board changes of the Company are as follows:

On 3 January 2020:

- (i) Mr. E Meng resigned as Executive Director and Executive Vice President.

On 21 January 2020:

- (i) Mr. Ma She resigned as Independent Non-executive Director, member of the Audit Committee and the Nomination Committee;
- (ii) Dr. Yu Sun Say replaced Mr. Ma She to concurrently hold the positions of member of the Audit Committee and the Nomination Committee.

During the year under review and up to the date of this report, changes in directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out as follows:

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### Date of Appointment

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Dr. Yu Sun Say

- Fu Shek Financial Holdings Limited <sup>(Note)</sup> 19 February 2020

*Note:* a company listed on the Hong Kong Stock Exchange (stock code: 2263)

In accordance with articles 98 and 107 of the Articles of Association and the recommendation of the Board, Mr. Wu Jiesi, M. Lam Hoi Ham and Dr. Sze Chi Ching will retire and, being eligible, will offer themselves for reelection at the 2020 AGM.

The Company has received annual confirmations of independence from each of the Independent Non-executive Directors, and as at the date of this Report still considers them to be independent.

# REPORT OF THE DIRECTORS

## **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

Biographical details of the Directors and the Senior Management are set out on pages 19 to 22 of this Report.

## **DIRECTOR'S SERVICE CONTRACT**

No Director proposed for re-election at the 2020 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## **DIRECTORS' REMUNERATION**

The Board has to seek Shareholders' authorisation at general meetings to fix the Directors' remuneration with reference to individual Director's duties, responsibilities and performance, the results of the Group as well as recommendation of the Remuneration Committee.

Further details of the Remuneration Committee are set out in the Corporate Governance Report on pages 38 to 49 of this Report.

## **DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS & CONTRACTS**

No Director had a material interest, either directly or indirectly, in any transaction, arrangement and contract of significance to the business of the Group to which the Company, any of its holding companies, subsidiaries and fellow subsidiaries was a party during the year.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

During the year, none of the Directors had any interest in any business apart from the Company's business which competes or is likely to compete, either directly or indirectly, with the Company's business.

# REPORT OF THE DIRECTORS

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

At 31 December 2019, the interests and short positions of the Directors and the Chief Executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the HKSE pursuant to the Model Code, were as follows:

### (A) LONG POSITIONS IN SHARES OF THE COMPANY

Director	Number of ordinary shares directly beneficially owned	Percentage of the Company's total number of issued shares
E Meng <sup>^</sup>	30,000	0.002%
Jiang Xinhao	20,000	0.002%
Tam Chun Fai	2,000	0.000%

### (B) LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

No Director and Chief Executive held any interest in any underlying shares.

### (C) LONG POSITIONS IN SHARES OF ASSOCIATED CORPORATIONS

Director	Associated corporation	Number of ordinary shares directly beneficially owned	Percentage of the associated corporations' total number of issued shares
E Meng <sup>^</sup>	BE Environment <sup>®</sup>	601,000	0.040%
Tam Chun Fai	BE Environment <sup>®</sup>	50,000	0.003%
Sze Chi Ching	BE Water <sup>®</sup>	500,000	0.005%
Yu Sun Say	BE Water <sup>®</sup>	100,000	0.001%



# REPORT OF THE DIRECTORS

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

### (D) LONG POSITIONS IN UNDERLYING SHARES OF ASSOCIATED CORPORATIONS

Long positions in share options in BE Environment<sup>®</sup> (a subsidiary of the Company):

Director	Number of share options directly beneficially owned				At 31 December 2019	Share options granted on (year/month/day)	Exercise period (year/month/day)	Exercise price per share (HK\$)
	At 1 January 2019	Granted during the year	Exercised during the year	Cancelled during the year				
E Meng <sup>^</sup>	6,770,000	-	-	-	6,770,000	2011/06/21	2011/06/21 – 2021/06/20	1.25
	6,770,000				6,770,000			

<sup>®</sup> As at 31 December 2019, all interests in these associated corporations owned by the Company are indirectly held.

<sup>^</sup> Resigned as Director of the Company on 3 January 2020.

Save as disclosed above, as at 31 December 2019, none of the Directors or the Chief Executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the HKSE pursuant to the Model Code.

### SHARE OPTION SCHEME

The Company currently does not have any share option scheme.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2019, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long Positions:

Name	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's total number of issued shares
	Directly beneficially owned	Others	Total	
MOL	100,050,000	–	100,050,000	7.93%
BEIL	163,730,288	100,050,000 <sup>(a)</sup>	263,780,288	20.90%
BE Group BVI	518,187,500	263,780,288 <sup>(b)</sup>	781,967,788	61.96%
BE Group	–	781,967,788 <sup>(c)</sup>	781,967,788	61.96%

#### Notes:

- (a) The interest disclosed includes the shares owned by MOL. MOL is a wholly-owned subsidiary of BEIL. Accordingly, BEIL is deemed to be interested in the shares owned by MOL.
- (b) The interest disclosed includes the shares owned by BEIL and MOL. BEIL, the holding company of MOL, is held directly as to 72.72% by BE Group BVI. Accordingly, BE Group BVI is deemed to be interested in the shares owned by BEIL and MOL.
- (c) The interest disclosed includes the interest in shares held by BE Group BVI as detailed in note (b). BE Group BVI is a wholly-owned subsidiary of BE Group. Accordingly, BE Group is deemed to be interested in the shares held by BE Group BVI, BEIL and MOL.

Save as disclosed above, as at 31 December 2019, no person, other than the Directors, whose interests are set out in the section “Directors’ and Chief Executive’s Interests and Short Positions in Shares and Underlying Shares” above, had registered an interest or a short position in the shares or underlying shares of the Company that was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions and continuing connected transactions undertaken by the Group during the year are set out in note 46 to the financial statements.

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

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their letter containing their findings and conclusions in respect of the continuing connected transactions which are subject to annual review under Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the HKSE.

# REPORT OF THE DIRECTORS

## SPECIFIC PERFORMANCE OBLIGATIONS OF THE CONTROLLING SHAREHOLDERS

As at the date of this Report, details of the agreements (the “Agreement(s)”) with covenants relating to specific performance obligations of the Company’s holding companies which constitute disclosure obligation pursuant to Rules 13.18 and 13.21 of the Listing Rules are as follows:

<b>Date of the Agreement(s)</b>	<b>Nature of the Agreement(s)</b>	<b>Aggregate amount (million)</b>	<b>Final Maturity</b>
5 May 2011	Purchase agreement for issuance of senior notes	US\$600	May 2021
5 May 2011	Purchase agreement for issuance of senior notes	US\$400	May 2041
18 April 2012	Purchase agreement for issuance of senior notes	US\$800	April 2022
29 April 2015	Subscription agreement for issuance of bonds	EUR500	May 2020
27 November 2015	Term loan facility with a bank	HK\$4,000	November 2020
1 December 2015	Subscription agreement for issuance of bonds	US\$200	December 2040
24 June 2016	Term loan facility with a bank	HK\$4,000	June 2021
22 November 2016	Term loan facility with a bank	HK\$3,000	November 2021
7 December 2016	Term loan facility with a bank	HK\$1,940	December 2021
12 April 2017	Subscription agreement for issuance of bonds	EUR800	April 2022
13 July 2017	Term loan facility with a bank	HK\$4,000	July 2022
17 July 2018	Term loan facility with a bank	EUR350	July 2023

Agreements include certain conditions imposing specific performance obligations on the Company’s holding companies, among which are the following events which would constitute an event of default:

1. If BE Group does not or ceases to own, directly or indirectly, at least 40% or 50%, where applicable, of the beneficial interest of the Company; and
2. If BE Group ceases to be controlled and supervised by the People’s Government of Beijing Municipality.

# REPORT OF THE DIRECTORS

## PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every Director shall be entitled to be indemnified by the Company against the losses which he may incur in the execution of the duties of his office, provided that this article shall only have effect in so far as it is not avoided by the Companies Ordinance.

The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the Directors.

## MANAGEMENT CONTRACTS

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during 2019.

## DONATIONS

The Group's charitable donations during the year were approximately HK\$4,820,000.

## EQUITY-LINKED AGREEMENTS

No equity-linked agreements (including share option scheme) were entered into by the Company during the year and no such agreement subsisted at the end of the year.

## SUFFICIENCY OF PUBLIC FLOAT

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

## AUDITOR

Ernst & Young retire and a resolution for their reappointment as the auditor of the Company will be proposed at the 2020 AGM.

ON BEHALF OF THE BOARD

**Hou Zibo**

*Chairman & CEO*

Hong Kong

31 March 2020

# CORPORATE GOVERNANCE REPORT

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Save as disclosed below, the Board believes that during the year ended 31 December 2019, the Company has complied with the code provisions (the “Code Provisions”) as set out in Appendix 14 to the Listing Rules.

During the year, the Company held two full board meetings instead of at least four full board meetings as required under Code Provision A.1.1. The Directors consider it is more efficient to hold board meetings to address emerging issues as appropriate. Sufficient measures have been taken to ensure that there is efficient communication among the Directors.

Mr. Hou Zibo has assumed the positions of Chairman and CEO since 1 September 2017. This arrangement deviates from Code Provision A.2.1 which recommends that the roles of chairman and chief executive should be separate and should not be performed by the same individual. However, the Board considers that the appointment of Mr. Hou Zibo as Chairman and CEO can bring benefits to the Company’s business development and management at present, and will not impair the balance of power and authority between the Board and the management of the Company.

Under Code Provision A.6.7, independent non-executive directors and non-executive directors should attend general meetings to develop a balanced understanding of the views of shareholders. During the year, not all Independent Non-executive Directors attended general meetings of the Company due to other business engagements, which have deviated from Code Provision A.6.7.

Under Code Provision E.1.2, the chairman of the board should attend the annual general meeting. Due to other business engagements, the Chairman of the Board was unable to attend the annual general meeting of the Company held on 11 June 2019, which deviates from Code Provision E.1.2. However, the Chairman had arranged other directors to attend the meeting and communicate with shareholders.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for securities transactions by the Directors. All the Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2019.

## THE BOARD

### Board Diversity Policy

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

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



# CORPORATE GOVERNANCE REPORT

## THE BOARD *(Continued)*

### Composition and Role

The principal focus of the Board is on the overall strategic development of the Group, while the management is principally responsible for the Group's business operations. The Board provides guidance on business plans and monitors the results of such plans implemented by the management; reviews and approves the Company's financial objectives, plans and major financial activities; establishes the internal control system and the risk management system of the Company and discusses with the management regularly to ensure that such systems are operating effectively. The Board promotes a culture of integrity at the Company and requires all Directors and the management to comply with guidance related to integrity and ethics, including conflicts of interest, related party transactions and the treatment of confidential information. There is no relationship (including financial, business, family or other material/relevant relationships) among the Directors.

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three Independent Non-executive Directors. In addition, at least one Independent Non-executive Director possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Board considers that all Independent Non-executive Directors meet the specific independence criteria as required by the Listing Rules. The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent.

During the year, the attendance of board meetings and general meetings is set out below:

Name	Attendance <sup>1</sup>					
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Investment Committee Meeting	Annual General Meeting
<b>Executive Directors</b>						
Hou Zibo			1/1	1/1	0/0	0/1
Li Yongcheng	2/2					
Zhao Xiaodong	2/2					
E Meng <sup>2</sup>	0/2					
Jiang Xinhao	2/2				0/0	
Tam Chun Fai	2/2					1/1
<b>Independent Non-executive Directors</b>						
Wu Jiesi	0/2	1/2	0/1			0/1
Lam Hoi Ham	1/2	2/2	1/1	1/1	0/0	1/1
Sze Chi Ching	1/2					1/1
Yu Sun Say	2/2				0/0	1/1
Ma She <sup>3</sup>	2/2	2/2		1/1	0/0	0/1

Note: <sup>1</sup> During the year, no meeting was attended by any Director's alternate.

<sup>2</sup> Resigned on 3 January 2020.

<sup>3</sup> Resigned on 21 January 2020.

# CORPORATE GOVERNANCE REPORT

## THE BOARD *(Continued)*

### Directors' Training

It has been the Board's policy that every newly appointed Director is given a comprehensive, formal and tailored-made induction on appointment pursuant to Code Provision A.6.1. Also, from time to time, Directors are provided with briefings and trainings to ensure that they have a proper understanding of the Company's operations and business and are fully aware of their responsibilities under relevant statutes, laws, Listing Rules and other regulations.

Pursuant to Code Provision C.1.2, Directors are provided with monthly reports updates which give a balanced and understandable assessment of the Company's performance and financial position to enable the Directors to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

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

<b>Name</b>	<b>Attend Seminars/ Read Training Materials</b>
<b><i>Executive Directors</i></b>	
Hou Zibo	✓
Li Yongcheng	✓
Zhao Xiaodong	✓
E Meng <i>(resigned on 3 January 2020)</i>	✓
Jiang Xinhao	✓
Tam Chun Fai	✓

<b>Name</b>	<b>Attend Seminars/ Read Training Materials</b>
<b><i>Independent Non-executive Directors</i></b>	
Wu Jiesi	✓
Lam Hoi Ham	✓
Sze Chi Ching	✓
Yu Sun Say	✓
Ma She <i>(resigned on 21 January 2020)</i>	✓

# CORPORATE GOVERNANCE REPORT

## THE BOARD *(Continued)*

### Non-executive Directors

Non-executive Directors (during the year, all non-executive Directors of the Company are Independent Non-executive Directors) serve the relevant function of bringing independent judgment on the development and performance, etc. of the Group. They have the same duties of care and skill and fiduciary duties as executive Directors.

The Company has entered into letters of appointment with all non-executive Directors (during the year, all non-executive Directors of the Company are Independent Non-executive Directors) for a term of three years. Their term of appointment is as follows:

Name	Term of Appointment
Wu Jiesi	3 years from 1 April 2018
Lam Hoi Ham	3 years from 1 April 2018
Sze Chi Ching	3 years from 28 March 2019
Yu Sun Say	3 years from 31 March 2017
Ma She <i>(resigned on 21 January 2020)</i>	3 years from 29 December 2016

Like all other Directors, the Non-executive Directors (during the year, all non-executive Directors of the Company are Independent Non-executive Directors) are subject to retirement by rotation and shall offer themselves for re-election in general meetings in accordance with the Articles of Association.

### Corporate Governance Functions

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

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and Senior Management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and
- (e) to review the Company's compliance with the Code Provisions.

# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE

The current members of the Audit Committee are:

Mr. Lam Hoi Ham – Committee Chairman  
Mr. Wu Jiesi  
Dr. Yu Sun Say (with effect from 21 January 2020)

All Audit Committee members are Independent Non-executive Directors. The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. The Audit Committee is primarily responsible for overseeing the Company's financial reporting system, risk management and internal control systems of the Company. The Company has adopted the written terms of reference which describe the authority and duties of the Audit Committee in accordance with Code Provision C.3.3. A copy of the terms of reference is posted on the Company's website. The Audit Committee meets regularly to review the reporting of financial and other information to Shareholders, the effectiveness and objectivity of the audit process. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

During the year, the work performed by the Audit Committee included: reviewed and approved the Company's annual results and interim results; reviewed the external auditors' scope of services, including audit work and non-audit work, and monitored their independence; reviewed with the management the Company's accounting principles and practices; and discussed with the Company's management the effectiveness of its risk management and internal control systems.

## REMUNERATION COMMITTEE

The current members of the Remuneration Committee are:

Mr. Wu Jiesi – Committee Chairman  
Mr. Lam Hoi Ham  
Mr. Hou Zibo

The majority of the Remuneration Committee members are Independent Non-executive Directors. The Company has adopted the written terms of reference which describe the authority and duties of the Remuneration Committee in accordance with Code Provision B.1.2. A copy of the terms of reference is posted on the Company's website. The major duties of the Remuneration Committee include: advises the Board on the Company's overall remuneration policy and structure as well as remuneration packages for Directors and Senior Management of the Company; and ensures that no Director or any of his associate is involved in deciding his own remuneration.

# CORPORATE GOVERNANCE REPORT

## REMUNERATION COMMITTEE *(Continued)*

The objective of the remuneration policy of the Company is to provide an equitable and competitive remuneration package so as to attract and retain the best employees to serve corporate needs. The remuneration package for each employee is structured to include: basic salary which is fixed to commensurate with market rate and each individual's experience and ability; share options granted with reference to an individual employee's position, performance and ability to contribute to the overall corporate success (the granting of share options is subject to shareholders' mandates as required and the applicable laws and regulations of relevant jurisdictions); and other customary and/or mandatory benefits to employees, such as retirement fund scheme, insurance and paid holiday, with reference to prevailing practices in relevant jurisdictions.

In evaluating the remuneration packages for Directors and Senior Management of the Company, the Remuneration Committee takes into consideration various factors such as salaries paid by comparable companies, time commitment, responsibilities and employment conditions elsewhere in the Group. During the year, the Remuneration Committee advised the Board on the Company's overall remuneration policy and structure as well as remuneration packages for Directors and Senior Management of the Company.

## NOMINATION COMMITTEE

The current members of the Nomination Committee are:

Mr. Hou Zibo – Committee Chairman

Mr. Lam Hoi Ham

Dr. Yu Sun Say (with effect from 21 January 2020)

The majority of the Nomination Committee members are Independent Non-executive Directors. The Company has adopted the written terms of reference which describe the authority and duties of the Nomination Committee in accordance with Code Provision A.5.2. A copy of the terms of reference is posted on the Company's website. The major duties of the Nomination Committee include: to review the structure, size and diversity of the Board; to formulate and uphold the Nomination Policy; to formulate and uphold the Board Diversity Policy; to make recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of Independent Non-executive Directors; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the CEO.

The Nomination Committee has adopted a Nomination Policy which sets out the criteria and procedures for nomination of Directors, a summary of which is as follows:–

# CORPORATE GOVERNANCE REPORT

## NOMINATION COMMITTEE *(Continued)*

### Nomination Criteria:

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

- (a) Skills and Experience: The candidate should possess the skills, knowledge and experience which are relevant to the business of the Group.
- (b) Diversity: Candidates should be considered on merit and against objective criteria, with due regard to the diversity perspectives set out in the Board Diversity Policy of the Company and the balance of skills and experience in board composition.
- (c) Availability: The candidate shall be willing to devote adequate time for discharging the duties of a member of the Board and other director position.
- (d) Character and integrity: The candidate must satisfy the Board and HKSE that he/she is a person of integrity and honesty, and has the character, experience and integrity commensurate with the relevant position as a Director.
- (e) Independence: The candidate to be nominated as an Independent Non-executive Director must satisfy the independence criteria set out in Rule 3.13 of the Listing Rules.

### Nomination Procedures:

- (1) If the Board determines that an additional or replacement Director is required, the Nomination Committee may take such measures that it considers appropriate in connection with its identification and evaluation of a candidate.
- (2) The Nomination Committee may propose to the Board a candidate recommended or offered for nomination by a Shareholder as a nominee for election to the Board.
- (3) Upon considering a candidate suitable for the position of Director, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment.
- (4) On making recommendation, the Nomination Committee may submit the candidate's personal profile to the Board for consideration. The Board may appoint the candidate as Director to fill a casual vacancy or as an addition to the Board or recommend such candidate to Shareholders for election or re-election (where appropriate) at the general meeting.



# CORPORATE GOVERNANCE REPORT

## INVESTMENT COMMITTEE

The current members of the Investment Committee are:

Mr. Hou Zibo – Committee Chairman  
Mr. Jiang Xinhao  
Mr. Lam Hoi Ham  
Dr. Yu Sun Say

The Investment Committee was established with the aims to strengthen the Company's ability in decision making for investments through assessing its major development plans and transactions, etc. The majority of the Investment Committee members are Independent Non-executive Directors. During the year, the Investment Committee did not hold any meeting as the Group did not have any important investment to assess important investments.

## AUDITORS' REMUNERATION

During the year ended 31 December 2019, fees paid and payable by the Company to the external auditor of the Company and the external auditor of an associate are analysed as follows:

	<i>HK\$'000</i>
Annual audit service fees paid and payable to:	
Auditor of the Company	10,700
Auditor of an associate	5,300
Non-audit service fees paid and payable to auditor of the Company*	5,197
	21,197

\* Such non-audit services include an agreed-upon procedures engagement in connection with the Group's interim financial report and tax compliance services, etc.

## DIRECTORS' AND AUDITOR'S RESPONSIBILITY STATEMENTS

The Directors acknowledged responsibility for reviewing the accounts of the Company prepared by the Executive Directors for the year ended 31 December 2019 and ensuring the accounts are prepared in accordance with the HKFRSs. A statement by the auditor about their reporting responsibilities is contained in the Independent Auditor's Report.

The Board confirmed that it has taken the same view from that of the Audit Committee regarding the appointment of the external auditors.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board has developed the Group's internal control, risk assessment and management systems and has overall responsibility for reviewing and maintaining adequate and effective risk management and internal control systems to safeguard the interests of the shareholders of the Company and the assets of the Group. The review covers all material controls, including financial, operational and compliance controls. It evaluates the effectiveness of the systems at least annually to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions.

# CORPORATE GOVERNANCE REPORT

## **RISK MANAGEMENT AND INTERNAL CONTROL** *(Continued)*

### **Responsibilities of the Board for the Risk Management and Internal Control Systems**

The Board understands that it is responsible for evaluating and determining the nature and extent of the risks it is willing to take and ensuring that the Group has established and maintained appropriate and effective risk management and internal control systems. The Board is also responsible for overseeing its risk management and internal control systems on an ongoing basis and reviewing the effectiveness of the risk management and internal control systems at least annually. The Board understands that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

### **Main Features of the Risk Management and Internal Control Systems**

The Board has adopted a bottom-up approach for identification, assessment and mitigation of risk at all business unit levels and across functional areas.

An ongoing risk management approach is adopted by the Group for identifying and assessing the key inherent risks that affect the achievements of its objectives.

The Group has established a risk management framework with three lines of defense. Each department and subsidiary of the Company form the front line of defense. They take up the responsibility of business risks control by integrating the risk management ideas and risk control measures into daily business operations. The middle line of defense was formed by the Company's management team, risk management task group and internal risk management department who organize and promote the implementation of risk management. The Board, the Audit Committee and Internal Audit Department form the back line of defense by overseeing the effectiveness of the risk management.

### **Process Used to Identify, Evaluate and Manage Significant Risks**

After interviewing major process owners of each of our departments and our major subsidiaries, we have documented the risks, identified the risk owners and the risk control measures in the risk registers. We have also assessed the risks in accordance of the risk assessment criteria.

### **Process Used to Review the Effectiveness of the Risk Management and Internal Control Systems and to Resolve Material Internal Control Defects**

The Internal Audit Department has conducted a review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2019 and reported the review results to the Audit Committee.

The Board has supervised the management in the design, implementation and monitoring of the risk management and internal control systems and evaluated the effectiveness of the Group's risk management and internal control systems during 2019. The yearly review covers all material controls, including financial, operational and compliance controls and the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting, internal audit and financial reporting functions.

The Board considers the risk management and internal control systems of the Group of the reporting year are effective and adequate.

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

### Procedures and Internal Controls for the Handling and Dissemination of Inside Information

The Board has already established a policy on the procedures and internal controls for the handling and dissemination of inside information. The policy stipulated the duty and responsibility of inside information announcement, restriction on sharing non-public information, handling of rumours, unintentional selective disclosure, exemption and waiver to the disclosure of inside information, and also compliance and reporting procedures. Every Senior Management must take all reasonable measures to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Company from time to time. They must promptly bring any possible leakage or divulgence of inside information to the attention of the Chief Financial Officer, who will notify the Board accordingly for taking the appropriate action promptly. For any material violation of this policy, the Board will decide, or designate appropriate persons to decide the course of actions for rectifying the problem and avoiding recurrence.

## COMPANY SECRETARY

The Executive Director and Chief Financial Officer, Mr. Tam Chun Fai, has been the Company Secretary of the Company since 1997. During the year 2019, Mr. Tam took no less than 15 hours of relevant professional training as required by Rule 3.29 of the Listing Rules.

## SHAREHOLDERS' RIGHTS

### To Convene an Extraordinary General Meeting ("EGM") by Shareholders

Pursuant to Section 566 of the Companies Ordinance, Shareholder(s) holding at least 5% of the total voting rights of all the Shareholders having a right to vote at EGMs can submit a written requisition to convene an EGM.

The written requisition:

1. must state the general nature of the business to be dealt with at the meeting;
2. may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;
3. may consist of several documents in like form;
4. may be sent to the Company in hard copy form or in electronic form; and
5. must be authenticated by the person or persons making it.

If Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any EGM so convened shall not be held after the expiration of 3 months from the said date.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS *(Continued)*

### To Make Enquiries to the Board

1. Shareholders should direct their questions about their shareholdings to the Company's share registrar.
2. Enquiries made to the Board may be deposited at the Company's registered office for the attention of the company secretary.

### To Put forward Proposals at an AGM

Shareholder(s) can submit a written requisition to move a resolution at an AGM pursuant to Section 615 of the Companies Ordinance if they:

1. represent at least 2.5% of the total voting rights of all the Shareholders who have a right to vote on the resolution at the AGM to which the requests relate; or
2. represent at least 50 Shareholders who have a right to vote on the resolution at the AGM to which the requests relate.

The written requisition:

1. may be sent to the Company in hard copy form or in electronic form;
2. must identify the resolution of which notice is to be given;
3. must be authenticated by the person or persons making it; and
4. must be received by the Company not later than:
  - (i) 6 weeks before the AGM to which the requests relate; or
  - (ii) if later, the time at which notice is given of that meeting.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS *(Continued)*

### **Circulating a Statement at an AGM or at a General Meeting**

Shareholder(s) can pursuant to Section 580 of the Companies Ordinance request the Company to circulate to Shareholders entitled to receive notice of a general meeting, a statement of not more than 1,000 words with respect to a matter mentioned in a proposed resolution to be dealt with at that meeting or other business to be dealt with at that meeting, if such Shareholder(s) –

1. represent at least 2.5% of the total voting rights of all Shareholders who have a relevant right to vote; or
2. at least 50 Shareholders who have a relevant right to vote.

The request –

1. may be sent in hard copy form or in electronic form to the Company's registered office;
2. must identify the statement to be circulated;
3. must be authenticated by the person or persons making it; and
4. must be received by the Company at least 7 days before the meeting to which it relates.

### **To Propose a Person other than a Director for Election as a Director at any General Meeting**

Pursuant to article 111 of the Articles of Association, if a Shareholder wishes to propose a person, other than a retiring Director or a person recommended by the Directors, for election as a Director at a general meeting, such Shareholder, who is duly qualified to attend and vote at such general meeting, should lodge a written and signed notice of nomination and a notice signed by the person to be proposed of his willingness to be elected at the Company's registered office or at the Company's share registrar. The notices should be given within the period commencing on the day after dispatch of the notice of the general meeting appointed for such election and ending no later than 7 days prior to the date of such general meeting and such period shall be at least 7 days.

## CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2019 there was no significant change in the Company's constitutional documents.

## DIVIDEND POLICY

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



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

# INDEPENDENT AUDITOR'S REPORT



## KEY AUDIT MATTERS

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

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

### Key audit matter

#### *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.

### How our audit addressed the key audit matter

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.

# INDEPENDENT AUDITOR'S REPORT



## 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.

# INDEPENDENT AUDITOR'S REPORT



## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the 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 HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT



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

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

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

# INDEPENDENT AUDITOR'S REPORT



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

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

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

	<i>Notes</i>	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
REVENUE	<i>6</i>	<b>67,783,028</b>	67,764,770
Cost of sales		<b>(56,836,891)</b>	(57,201,105)
Gross profit		<b>10,946,137</b>	10,563,665
Gains on deemed disposal of partial interests in associates	<i>22(a)</i>	<b>338,115</b>	549,014
Other income and gains, net	<i>7</i>	<b>1,387,500</b>	1,364,969
Selling and distribution expenses		<b>(2,066,966)</b>	(2,237,692)
Administrative expenses		<b>(4,846,395)</b>	(4,784,957)
Other operating expenses, net		<b>(978,673)</b>	(1,041,535)
Finance costs	<i>8</i>	<b>(2,194,968)</b>	(1,977,744)
Share of profits and losses of:			
Joint ventures		<b>28,810</b>	(6,715)
Associates	<i>22(b), 22(c)</i>	<b>6,982,418</b>	6,666,446
PROFIT BEFORE TAX	<i>9</i>	<b>9,595,978</b>	9,095,451
Income tax	<i>12</i>	<b>(1,022,369)</b>	(1,158,810)
PROFIT FOR THE YEAR		<b>8,573,609</b>	7,936,641
ATTRIBUTABLE TO:			
Shareholders of the Company		<b>8,054,780</b>	7,577,383
Non-controlling interests		<b>518,829</b>	359,258
		<b>8,573,609</b>	7,936,641
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
Basic and diluted	<i>14</i>	<b>HK\$6.38</b>	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)			
<i>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:</i>			
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)
<i>Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:</i>			
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

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
<b>ASSETS</b>			
Non-current assets:			
Property, plant and equipment	<i>15</i>	<b>51,898,919</b>	51,717,563
Investment properties	<i>16</i>	<b>1,131,346</b>	1,147,395
Right-of-use assets	<i>17(b)</i>	<b>2,839,886</b>	–
Prepaid land premiums	<i>17(b)</i>	–	1,469,087
Goodwill	<i>18</i>	<b>16,332,072</b>	16,553,016
Operating concessions	<i>19</i>	<b>3,783,828</b>	2,981,150
Other intangible assets	<i>20</i>	<b>3,373,759</b>	3,272,196
Investments in joint ventures	<i>21</i>	<b>327,691</b>	358,475
Investments in associates	<i>22</i>	<b>57,244,835</b>	53,375,575
Equity investments at fair value through other comprehensive income	<i>23</i>	<b>3,284,217</b>	2,908,338
Financial asset at fair value through profit or loss	<i>24</i>	<b>2,265,249</b>	2,301,452
Receivables under service concession arrangements	<i>19</i>	<b>2,380,255</b>	1,807,792
Receivable under a finance lease	<i>17(a)</i>	<b>738,296</b>	846,572
Prepayments, other receivables and other assets	<i>27</i>	<b>937,969</b>	1,538,539
Deferred tax assets	<i>39</i>	<b>1,638,766</b>	1,423,522
<b>Total non-current assets</b>		<b>148,177,088</b>	141,700,672
Current assets:			
Prepaid land premiums	<i>17(b)</i>	–	38,342
Inventories	<i>25</i>	<b>5,189,188</b>	5,138,624
Receivable under a finance lease	<i>17(a)</i>	<b>84,707</b>	81,260
Receivables under service concession arrangements	<i>19</i>	<b>97,552</b>	123,605
Trade receivables	<i>26</i>	<b>6,029,450</b>	5,216,897
Prepayments, other receivables and other assets	<i>27</i>	<b>3,638,798</b>	3,611,879
Other tax recoverables		<b>393,871</b>	609,522
Restricted cash and pledged deposits	<i>29</i>	<b>36,701</b>	39,983
Cash and cash equivalents	<i>30</i>	<b>22,158,921</b>	17,935,496
<b>Total current assets</b>		<b>37,629,188</b>	32,795,608
<b>TOTAL ASSETS</b>		<b>185,806,276</b>	174,496,280

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b>	2018 <i>HK\$'000</i>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to shareholders of the Company</b>			
Share capital	<i>31</i>	<b>30,401,883</b>	30,401,883
Reserves	<i>33(a)</i>	<b>44,879,756</b>	39,270,734
		<b>75,281,639</b>	69,672,617
<b>Non-controlling interests</b>		<b>11,733,188</b>	11,342,755
<b>TOTAL EQUITY</b>		<b>87,014,827</b>	81,015,372
<b>Non-current liabilities:</b>			
Bank and other borrowings	<i>34</i>	<b>25,765,222</b>	26,958,501
Guaranteed bonds and notes	<i>35</i>	<b>26,268,062</b>	31,024,807
Lease liabilities	<i>17(b)</i>	<b>684,279</b>	–
Defined benefit obligations	<i>36(b)</i>	<b>2,270,816</b>	2,011,333
Provision for major overhauls and onerous contracts	<i>37</i>	<b>355,576</b>	341,974
Other non-current liabilities	<i>38</i>	<b>1,823,219</b>	1,708,842
Deferred tax liabilities	<i>39</i>	<b>2,576,094</b>	2,250,422
<b>Total non-current liabilities</b>		<b>59,743,268</b>	64,295,879

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b>	2018 <i>HK\$'000</i>
Current liabilities:			
Trade and bills payables	<i>40</i>	<b>4,508,343</b>	4,504,712
Other payables, accruals and contract liabilities	<i>41</i>	<b>21,235,911</b>	21,413,851
Provision for major overhauls and onerous contracts	<i>37</i>	<b>49,525</b>	50,944
Income tax payables		<b>981,218</b>	1,227,743
Other tax payables		<b>374,237</b>	448,372
Bank and other borrowings	<i>34</i>	<b>7,361,029</b>	1,539,407
Guaranteed bonds and notes	<i>35</i>	<b>4,373,180</b>	–
Lease liabilities	<i>17(b)</i>	<b>164,738</b>	–
<b>Total current liabilities</b>		<b>39,048,181</b>	29,185,029
<b>TOTAL LIABILITIES</b>		<b>98,791,449</b>	93,480,908
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>185,806,276</b>	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

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b>	2018 <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>9,595,978</b>	9,095,451
Adjustments for:			
Gains on deemed disposal of partial interests in associates	<i>22(a)</i>	<b>(338,115)</b>	(549,014)
Bank interest income	<i>7</i>	<b>(254,723)</b>	(235,922)
Finance income on the net investment in a finance lease	<i>7</i>	<b>(61,516)</b>	(74,256)
Transfer of assets from customers	<i>7</i>	<b>(115,914)</b>	–
Gain on disposal of items of property, plant and equipment, net	<i>7</i>	<b>(2,240)</b>	(13,469)
Dividend income of an equity investment at fair value through other comprehensive income	<i>7</i>	<b>(49,402)</b>	(48,740)
Investment income of a financial asset at fair value through profit or loss	<i>7</i>	<b>(160,284)</b>	(249,624)
Finance costs	<i>8</i>	<b>2,194,968</b>	1,977,744
Depreciation of items of property, plant and equipment	<i>9</i>	<b>3,592,541</b>	3,500,464
Depreciation of right-of-use assets	<i>9</i>	<b>198,898</b>	–
Amortisation of prepaid land premiums	<i>9</i>	–	38,609
Amortisation of operating concessions	<i>9</i>	<b>131,863</b>	122,425
Amortisation of other intangible assets	<i>9</i>	<b>235,434</b>	288,695
Impairment of items of property, plant and equipment	<i>15</i>	–	600,608
Impairment of prepaid land premiums	<i>17(b)</i>	–	76,254
Impairment of goodwill	<i>18</i>	<b>81,118</b>	–
Impairment of operating concessions	<i>19</i>	<b>158,889</b>	–
Impairment/(reversal of impairment) of trade receivables, net	<i>9</i>	<b>(56,825)</b>	85,298
Impairment of other receivables, net	<i>9</i>	<b>205,253</b>	70,926
Share of profits and losses of joint ventures and associates		<b>(7,011,228)</b>	(6,659,731)
Operating profit before working capital changes		<b>8,344,695</b>	8,025,718

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b> <i>(Continued)</i>		
Operating profit before working capital changes	<b>8,344,695</b>	8,025,718
Increase in inventories	<b>(127,907)</b>	(63,288)
Increase in receivables under service concession arrangements	<b>(252,743)</b>	(33,360)
Increase in trade receivables	<b>(699,510)</b>	(1,507,975)
Decrease/(increase) in prepayments, other receivables and other assets	<b>7,777</b>	(120,022)
Decrease/(increase) in other tax recoverables	<b>215,111</b>	(3,671)
Increase in trade and bills payables	<b>145,647</b>	576,055
Increase/(decrease) in other payables, accruals and contract liabilities	<b>(41,470)</b>	2,224,208
Increase/(decrease) in other tax payables	<b>(66,968)</b>	184,357
Increase in provision for major overhauls and onerous contracts	<b>21,508</b>	21,362
Increase in defined benefit obligations	<b>119,247</b>	362,102
Increase in other non-current liabilities	<b>9,841</b>	569,256
Cash generated from operations	<b>7,675,228</b>	10,234,742
Finance income on the net investment in a finance lease received	<b>61,516</b>	74,256
Mainland China income tax paid	<b>(1,046,245)</b>	(1,104,211)
Overseas income tax paid	<b>(160,904)</b>	(108,105)
Net cash flows from operating activities	<b>6,529,595</b>	9,096,682

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b>	2018 <i>HK\$'000</i>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Dividends received from associates		<b>3,837,503</b>	3,953,778
Purchases of items of property, plant and equipment		<b>(4,256,794)</b>	(7,150,966)
Proceeds from disposal of items of property, plant and equipment		<b>123,833</b>	125,763
Receipt of assets-related governments grants		<b>893,972</b>	772,969
Additions to prepaid land premiums		–	(27,602)
Additions to operating concessions		<b>(1,237,298)</b>	(120,826)
Additions to other intangible assets		<b>(72,224)</b>	(61,378)
Acquisition of subsidiaries	43	<b>821,298</b>	58,166
Increase in investments in joint ventures and associates		<b>(1,216,314)</b>	(2,888,871)
Decrease/(increase) in time deposits with maturity of more than three months when acquired		<b>(113,643)</b>	854,351
Decrease in restricted cash and pledged deposits		<b>2,639</b>	3,277
Dividend income of an equity investment at fair value through other comprehensive income received		<b>49,402</b>	48,740
Investment income of a financial asset at fair value through profit or loss received		<b>160,284</b>	249,624
Bank interest income received		<b>254,723</b>	235,922
<b>Net cash flows used in investing activities</b>		<b>(752,619)</b>	(3,947,053)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Capital contributions from non-controlling equity holders of subsidiaries		–	3,181
New loans		<b>4,805,563</b>	7,681,893
Repayment of loans		<b>(1,913,743)</b>	(7,878,971)
Principal portion of lease payments	17(b)	<b>(288,530)</b>	–
Interest portion of lease payments	17(b)	<b>(45,573)</b>	–
Other interest paid		<b>(2,150,720)</b>	(1,988,560)
Dividends paid		<b>(1,426,120)</b>	(1,262,053)
Dividends paid to non-controlling equity holders of subsidiaries		<b>(311,310)</b>	(294,046)
<b>Net cash flows used in financing activities</b>		<b>(1,330,433)</b>	(3,738,556)

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	<i>Note</i>	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<b>4,446,543</b>	1,411,073
Cash and cash equivalents at beginning of year		<b>17,909,131</b>	16,959,763
Effect of foreign exchange rate changes, net		<b>(335,070)</b>	(461,705)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>22,020,604</b>	17,909,131
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits	<i>30</i>	<b>10,102,694</b>	9,623,477
Saving deposits placed in a financial institution (an associate of the Group)	<i>30</i>	<b>480,695</b>	464,658
Time deposits:			
Placed in banks	<i>30</i>	<b>9,200,602</b>	5,563,092
Placed in a financial institution (an associate of the Group)	<i>30</i>	<b>2,411,631</b>	2,324,252
Less: Restricted cash and pledged deposits	<i>30</i>	<b>(36,701)</b>	(39,983)
Cash and cash equivalents as stated in the consolidated statement of financial position		<b>22,158,921</b>	17,935,496
Less: Time deposits with maturity of more than three months when acquired		<b>(138,317)</b>	(26,365)
Cash and cash equivalents as stated in the consolidated statement of cash flows		<b>22,020,604</b>	17,909,131

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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”).

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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		Principal activities
			Direct	Indirect	
Beijing Gas Group Company Limited ("Beijing Gas") <sup>#</sup>	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") <sup>#</sup>	PRC/ Mainland China	RMB650,000,000	–	60	Distribution and sale of piped gas
北京燃氣平谷有限公司 <sup>#</sup>	PRC/ Mainland China	RMB539,326,100	–	98.95	Distribution and sale of piped gas
北京燃氣懷柔有限公司 <sup>#</sup>	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") <sup>###</sup>	PRC/ Mainland China	RMB3,409,828,000	–	79.77	Investment holding
Beijing Yanjing Brewery Company Limited ("Yanjing Brewery") <sup>###</sup>	PRC/ Mainland China	RMB2,818,539,341	–	45.79 <sup>†</sup>	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan") <sup>###</sup>	PRC/ Mainland China	RMB250,000,000	–	22.93 <sup>†</sup>	Production and sale of beer
燕京啤酒(包頭雪鹿)股份有限公司 <sup>#</sup>	PRC/ Mainland China	RMB547,303,240	–	42.32 <sup>†</sup>	Production and sale of beer
燕京啤酒(桂林漓泉)股份有限公司 <sup>#</sup>	PRC/ Mainland China	RMB349,366,900	–	34.69 <sup>†</sup>	Production and sale of beer
燕京啤酒(赤峰)有限責任公司 <sup>#</sup>	PRC/ Mainland China	RMB577,120,000	–	43.16 <sup>†</sup>	Production and sale of beer
新疆燕京啤酒有限公司 <sup>#</sup>	PRC/ Mainland China	RMB683,650,000	–	45.79 <sup>†</sup>	Production and sale of beer
燕京啤酒(衡陽)有限公司 <sup>#</sup>	PRC/ Mainland China	RMB525,660,000	–	44.80 <sup>†</sup>	Production and sale of beer
四川燕京啤酒有限公司 <sup>#</sup>	PRC/ Mainland China	RMB480,000,000	–	45.79 <sup>†</sup>	Production and sale of beer
廣東燕京啤酒有限公司 <sup>#</sup>	PRC/ Mainland China	RMB809,882,100	–	58.23	Production and sale of beer
Beijing Enterprises Environment Group Limited ("BEEGL") <sup>②</sup>	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 <sup>#</sup>	PRC/ Mainland China	RMB349,590,000	–	65	Solid waste treatment operation



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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		Principal activities
			Direct	Indirect	
北京北控綠海能環保有限公司 <sup>###</sup>	PRC/ Mainland China	RMB308,340,000	–	48.74 <sup>†</sup>	Solid waste treatment operation
北京高安屯垃圾焚燒有限公司 <sup>###</sup>	PRC/ Mainland China	RMB274,000,000	–	42.78 <sup>†</sup>	Solid waste treatment operation
哈爾濱市雙琦環保資源利用有限公司 <sup>###</sup>	PRC/ Mainland China	RMB240,000,000	–	39.38 <sup>†</sup>	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.

□ 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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

# NOTES TO FINANCIAL STATEMENTS

31 December 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:

	<i>HK\$'000</i>
<b>Assets</b>	
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
<b>Liabilities</b>	
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:	
	<i>HK\$'000</i>
Operating lease commitments as at 31 December 2018 <i>(note 17(b))</i>	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)
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 <i>(note 17(b))</i>	570,048



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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	<i>Definition of a Business</i> <sup>1</sup>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
HKFRS 17	<i>Insurance Contracts</i> <sup>2</sup>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>3</sup> No mandatory effective date yet determined but available for adoption

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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).

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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 <i>(note 6)</i>	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.



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 5. OPERATING SEGMENT INFORMATION *(Continued)*

### Geographical information

#### (a) Revenue from external customers

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Mainland China	62,463,119	62,645,555
Germany	5,319,909	5,119,215
	<b>67,783,028</b>	67,764,770

The revenue information above is based on the locations of the customers.

#### (b) Non-current assets

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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
	<b>136,932,336</b>	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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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
<b>Type of goods or services</b>				
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
<b>Geographical markets</b>				
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
<b>Timing of revenue recognition</b>				
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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 6. REVENUE *(Continued)*

### (a) Disaggregated revenue information *(Continued)*

Year ended 31 December 2018

Segments	Piped gas operation <i>HK\$'000</i>	Brewery operation <i>HK\$'000</i>	Solid waste treatment operation <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Type of goods or services</b>				
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
<b>Total revenue from contracts with customers</b>	<b>48,648,824</b>	<b>12,366,723</b>	<b>6,749,223</b>	<b>67,764,770</b>
<b>Geographical markets</b>				
Mainland China	48,648,824	12,366,723	1,630,008	62,645,555
Germany	–	–	5,119,215	5,119,215
<b>Total revenue from contracts with customers</b>	<b>48,648,824</b>	<b>12,366,723</b>	<b>6,749,223</b>	<b>67,764,770</b>
<b>Timing of revenue recognition</b>				
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
<b>Total revenue from contracts with customers</b>	<b>48,648,824</b>	<b>12,366,723</b>	<b>6,749,223</b>	<b>67,764,770</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 7. OTHER INCOME AND GAINS, NET

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
<b>Other income</b>		
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 ( <i>note 15</i> )	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
	<b>1,385,260</b>	1,348,824
<b>Gains, net</b>		
Gain on disposal of items of property, plant and equipment, net	2,240	13,469
Foreign exchange differences, net	–	2,676
	<b>2,240</b>	16,145
Other income and gains, net	<b>1,387,500</b>	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.*

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 8. FINANCE COSTS

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
Interest on bank loans and other loans		<b>1,049,473</b>	887,358
Interest on guaranteed bonds and notes		<b>1,101,247</b>	1,101,202
Interest on lease liabilities	<i>17(b)</i>	<b>45,573</b>	–
Total interest expenses		<b>2,196,293</b>	1,988,560
Increase in discounted amounts of provision for major overhauls arising from the passage of time	<i>37</i>	<b>1,815</b>	2,190
Total finance costs		<b>2,198,108</b>	1,990,750
Less: Interest capitalised in construction in progress		<b>(3,140)</b>	(13,006)
		<b>2,194,968</b>	1,977,744

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 9. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
Cost of inventories sold*		<b>54,198,006</b>	55,505,615
Cost of services provided*		<b>2,340,908</b>	1,348,649
Depreciation of items of property, plant and equipment	<i>15</i>	<b>3,592,541</b>	3,500,464
Depreciation of right-of-use assets	<i>17(b)</i>	<b>198,898</b>	–
Amortisation of prepaid land premiums	<i>17(b)</i>	–	38,609
Amortisation of operating concessions*	<i>19</i>	<b>131,863</b>	122,425
Amortisation of other intangible assets**	<i>20</i>	<b>235,434</b>	288,695
Provision for major overhauls***	<i>37</i>	<b>21,508</b>	21,362
Research and development expenditure***		<b>268,120</b>	60,912
Minimum lease payments under operating leases		–	314,027
Lease payments not included in the measurement of lease liabilities	<i>17(b)</i>	<b>189,227</b>	–
Auditors' remuneration paid and payable to:			
Auditor of the Company		<b>10,700</b>	10,700
Auditor of an associate		<b>5,300</b>	4,500
Employee benefit expense (including directors' remuneration – note 10):			
Salaries, allowances and benefits in kind		<b>6,727,330</b>	6,548,880
Net pension scheme contributions		<b>496,024</b>	645,317
Net benefit expense of defined benefit plans**	<i>36(a)</i>	<b>160,567</b>	396,912
		<b>7,383,921</b>	7,591,109
Less: Amount capitalised in construction in progress/operating concessions		<b>(51,712)</b>	(33,184)
		<b>7,332,209</b>	7,557,925
Foreign exchange differences, net		<b>28,245</b>	–
Impairment of non-current non-financial assets#		<b>538,711</b>	676,862
Impairment of financial assets, net:			
Impairment/(reversal of impairment) of trade receivables, net***	<i>26(d)</i>	<b>(56,825)</b>	85,298
Impairment of other receivables, net***	<i>27(c)</i>	<b>205,253</b>	70,926
		<b>148,428</b>	156,224
Direct operating expenses (including repair and maintenance) arising from rental-earning investment properties		<b>38,812</b>	36,956



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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:

	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
Fees	<b>1,350</b>	2,190
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	<b>8,333</b>	14,967
Pension scheme contributions	<b>29</b>	29
	<b>8,362</b>	14,996
	<b>9,712</b>	17,186

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 10. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
<b>Year ended 31 December 2019</b>				
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
	<b>150</b>	<b>8,333</b>	<b>29</b>	<b>8,512</b>
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**	–	–	–	–
	<b>1,200</b>	<b>–</b>	<b>–</b>	<b>1,200</b>
<b>Total directors' remuneration</b>	<b>1,350</b>	<b>8,333</b>	<b>29</b>	<b>9,712</b>

\* 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 10. DIRECTORS' REMUNERATION *(Continued)*

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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:

	<b>2019</b> <b>HK\$'000</b>
Salaries, allowances and benefits in kind	<b>25,389</b>
Pension scheme contributions	<b>1,309</b>
	<b>26,698</b>

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:

	<b>Number of employees 2019</b>
HK\$2,500,001 to HK\$3,000,000	<b>1</b>
HK\$3,000,001 to HK\$3,500,000	<b>1</b>
HK\$5,500,001 to HK\$6,000,000	<b>1</b>
HK\$6,000,001 to HK\$6,500,000	<b>1</b>
HK\$8,500,001 to HK\$9,000,000	<b>1</b>
	<b>5</b>

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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 12. INCOME TAX

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current:		
Hong Kong	3,303	9,651
Mainland China	601,427	893,045
Germany	328,293	404,690
Others	48,603	104,850
Deferred ( <i>note 39</i> )	40,743	(253,426)
Total tax expense for the year	<b>1,022,369</b>	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.*

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.



# NOTES TO FINANCIAL STATEMENTS

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## 13. DIVIDENDS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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
	<b>1,438,740</b>	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.

# NOTES TO FINANCIAL STATEMENTS

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## 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
<b>Year ended 31 December 2019</b>									
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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Note	Buildings HK\$'000 <i>(note (a))</i>	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 <i>(note (b))</i>	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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 16. INVESTMENT PROPERTIES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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	2018
Office buildings or premises	Investment method and direct comparison method	Estimated rental value per square metre and per month (HK\$)	<b>74 to 374</b>	75 to 380
		Capitalisation rate	<b>6.75% to 7.75%</b>	6.75% to 7.75%
		Price per square metre (HK\$)	<b>10,009 to 57,940</b>	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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Amounts receivable:				
Within one year	<b>138,872</b>	142,849	<b>134,483</b>	138,334
After one year but within two years	<b>138,872</b>	142,849	<b>125,416</b>	129,008
After two years but within three years	<b>138,872</b>	142,849	<b>116,960</b>	120,310
After three years but within four years	<b>138,872</b>	142,849	<b>109,076</b>	112,200
After four years but within five years	<b>464,526</b>	142,848	<b>337,068</b>	104,635
After five years	–	477,828	–	323,345
Total minimum finance lease receivables	<b>1,020,014</b>	1,192,072	<b>823,003</b>	927,832
Less: Unearned finance income	<b>(197,011)</b>	(264,240)		
Total net receivable under a finance lease	<b>823,003</b>	927,832		
Portion classified as current assets	<b>(84,707)</b>	(81,260)		
Non-current portion	<b>738,296</b>	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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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:

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within one year	<b>76,748</b>	48,494
After one year but within two years	<b>45,501</b>	43,265
After two years but within three years	<b>15,728</b>	27,657
After three years but within four years	–	6,048
Total	<b>137,977</b>	125,464



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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)*

	<i>HK\$'000</i>
At 1 January 2018	1,661,025
Additions	27,602
Amortisation provided during the year <i>(note 9)</i>	(38,609)
Impairment provided during the year <i>(note)</i>	(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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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 <i>HK\$'000</i>	Payable after five years <i>HK\$'000</i>	Total <i>HK\$'000</i>
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:

	<b>2019</b> <i>HK\$'000</i>
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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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
<b>Total</b>	<b>796,418</b>

## 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 <i>(note 43)</i>	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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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:

	<i>Notes</i>	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Piped gas operation	<i>(i)</i>	<b>7,079,157</b>	6,997,791
Brewery operation	<i>(ii)</i>	<b>373,892</b>	461,356
Solid waste treatment operation	<i>(iii)</i>	<b>8,827,484</b>	9,040,252
Others		<b>51,539</b>	53,617
		<b>16,332,072</b>	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.

# NOTES TO FINANCIAL STATEMENTS

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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 19. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

The following is the summarised information of the Group's service concession arrangements:

### Operating concessions

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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 <i>(note 9)</i>	(131,863)	(122,425)
Impairment provided during the year <i>(note (c))</i>	(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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 19. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

### Receivables under service concession arrangements

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Receivables under service concession arrangements attributable to solid waste treatment operations <i>(notes (a) and (b))</i>	<b>2,477,807</b>	1,931,397
Portion classified as current assets	<b>(97,552)</b>	(123,605)
Non-current portion	<b>2,380,255</b>	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%.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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:

	<b>31 December 2019</b>	31 December 2018	1 January 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract assets included in:			
Operating concessions	<b>1,286,977</b>	437,902	850,042
Receivables under service concession arrangements	<b>305,576</b>	80,374	781,247
Total contract assets	<b>1,592,553</b>	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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 20. OTHER INTANGIBLE ASSETS

	<i>Notes</i>	Customer contracts <i>HK\$'000</i>	Operating concessions <i>HK\$'000</i>	Patents <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31 December 2019</b>						
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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 20. OTHER INTANGIBLE ASSETS *(Continued)*

	<i>Note</i>	Customer contracts <i>HK\$'000</i>	Operating concessions <i>HK\$'000</i>	Patents <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	<i>9</i>	(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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 21. INVESTMENTS IN JOINT VENTURES

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Share of net assets	<b>327,691</b>	358,475

All joint ventures of the Group are not individually material.

## 22. INVESTMENTS IN ASSOCIATES

	<i>Notes</i>	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Share of net assets	<i>(b), (c)</i>	<b>46,575,985</b>	42,399,066
Goodwill on acquisition, net of impairment	<i>(b), (c)</i>	<b>10,668,850</b>	10,976,509
		<b>57,244,835</b>	53,375,575



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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	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 <sup>π</sup>	Bermuda	Ordinary shares	41.13	41.13	41.13
China Gas Holdings Limited ("China Gas") <sup>□</sup>	Bermuda	Ordinary shares	23.72	23.72	23.72
PJSC Verkhnechonskneftegaz ("VCNG")	Russia	Ordinary shares	20	20	20

<sup>π</sup> *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.*

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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)*

<sup>2</sup> *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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 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
<b>Reconciliation to the Group's investments in the associates</b>								
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
<b>Other disclosures</b>								
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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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 HK\$'000	2018 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 HK\$'000	2018 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
	<b>2,714,349</b>	2,572,238
Unlisted equity investments, at fair value	<b>569,868</b>	336,100
	<b>3,284,217</b>	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.

# NOTES TO FINANCIAL STATEMENTS

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## 24. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables	6,221,099	5,475,684
Impairment ( <i>note (d)</i> )	(191,649)	(258,787)
	6,029,450	5,216,897

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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 HK\$'000	2018 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.*

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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

	Unbilled	Billed				Total
		Within 1 year	1 to 2 years	2 to 3 years	Over 3 years	
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

	Unbilled	Billed				Total
		Within 1 year	1 to 2 years	2 to 3 years	Over 3 years	
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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 27. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	<i>Notes</i>	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Prepayments		<b>1,408,855</b>	1,401,839
Deposits and other receivables	<i>(a)</i>	<b>1,373,289</b>	1,771,927
Due from holding companies	<i>28</i>	<b>1,550,564</b>	1,590,632
Due from fellow subsidiaries	<i>28</i>	<b>117,978</b>	119,863
Due from a joint venture	<i>28</i>	<b>88,090</b>	89,498
Due from associates	<i>28</i>	<b>30,565</b>	37,308
Due from related parties	<i>28</i>	<b>104,332</b>	182,298
Contract assets	<i>(b)</i>	<b>319,061</b>	171,442
		<b>4,992,734</b>	5,364,807
Impairment allowance	<i>(c)</i>	<b>(415,967)</b>	(214,389)
		<b>4,576,767</b>	5,150,418
Portion classified as current assets		<b>(3,638,798)</b>	(3,611,879)
Non-current portion		<b>937,969</b>	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)).



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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:

	<b>31 December 2019 HK\$'000</b>	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Within one year	<b>308,962</b>	161,187	29,021
After one year	<b>10,099</b>	10,255	10,608
<b>Total contract assets</b>	<b>319,061</b>	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:

	<b>2019 HK\$'000</b>	2018 HK\$'000
At 1 January	<b>214,389</b>	147,948
Impairment losses recognised during the year, net <i>(note 9)</i>	<b>205,253</b>	70,926
Exchange realignment	<b>(3,675)</b>	(4,485)
<b>At 31 December</b>	<b>415,967</b>	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.

# NOTES TO FINANCIAL STATEMENTS

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## 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

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b>	2018 <b>HK\$'000</b>
Restricted cash	<i>(a)</i>	<b>26,923</b>	27,353
Pledged deposits	<i>(b)</i>	<b>9,778</b>	12,630
Restricted cash and pledged deposits		<b>36,701</b>	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)).

# NOTES TO FINANCIAL STATEMENTS

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## 30. CASH AND CASH EQUIVALENTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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) ( <i>note 46(a)(x)</i> )	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) ( <i>note 46(a)(x)</i> )	2,411,631	2,324,252
	<b>22,195,622</b>	17,975,479
Less: Restricted cash and pledged deposits ( <i>note 29</i> )	<b>(36,701)</b>	(39,983)
Cash and cash equivalents	<b>22,158,921</b>	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.

# NOTES TO FINANCIAL STATEMENTS

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## 31. SHARE CAPITAL

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Issued and fully paid:		
1,262,053,268 ordinary shares	<b>30,401,883</b>	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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 34. BANK AND OTHER BORROWINGS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Bank loans:		
Secured	799,800	856,929
Unsecured	29,355,321	25,834,006
	<b>30,155,121</b>	26,690,935
Other loans:		
Unsecured	2,971,130	1,806,973
Total bank and other borrowings	<b>33,126,251</b>	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
	<b>30,155,121</b>	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
	<b>2,971,130</b>	1,806,973
Total bank and other borrowings	<b>33,126,251</b>	28,497,908
Portion classified as current liabilities	<b>(7,361,029)</b>	(1,539,407)
Non-current portion	<b>25,765,222</b>	26,958,501

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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
	<b>33,126,251</b>	<b>28,497,908</b>

(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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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
				<b>30,641,242</b>	<b>31,024,807</b>
Portion classified as current liabilities				<b>(4,373,180)</b>	<b>-</b>
Non-current portion				<b>26,268,062</b>	<b>31,024,807</b>

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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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 <i>HK\$'000</i>	Supplemental post-retirement allowance and beneficiary benefit plans <i>HK\$'000</i>	Internal retirement benefit plan <i>HK\$'000</i>	Post- employment physical examination plan <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31 December 2019</b>					
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
<b>Year ended 31 December 2018</b>					
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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 36. DEFINED BENEFIT PLANS *(Continued)*

### (b) Present value of the defined benefit obligations

2019

	Supplemental post-retirement medical reimbursement plan <i>HK\$'000</i>	Supplemental post-retirement allowance and beneficiary benefit plans <i>HK\$'000</i>	Internal retirement benefit plan <i>HK\$'000</i>	Post- employment physical examination plan <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 <i>(note 41)</i>					(21,780)
Non-current portion					2,270,816

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 36. DEFINED BENEFIT PLANS *(Continued)*

### (b) Present value of the defined benefit obligations *(Continued)*

2018

	Supplemental post-retirement medical reimbursement plan <i>HK\$'000</i>	Supplemental post-retirement allowance and beneficiary benefit plans <i>HK\$'000</i>	Internal retirement benefit plan <i>HK\$'000</i>	Post- employment physical examination plan <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 <i>(note 41)</i>					(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).

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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%

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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
<u>Beijing Gas</u>				
<b>2019</b>				
Discount rate	0.25	(67,126)	0.25	73,594
Healthcare cost inflation rate	1.00	319,565	1.00	(228,501)
<hr/>				
2018				
Discount rate	0.25	(83,515)	0.25	91,100
Healthcare cost inflation rate	1.00	307,156	1.00	(219,570)
<hr/>				
<u>EEW Group</u>				
<b>2019</b>				
Discount rate	0.25	(58,636)	0.25	62,397
Salary increase rate	0.50	4,609	0.50	(4,400)
<hr/>				
2018				
Discount rate	0.25	(43,272)	0.25	45,881
Salary increase rate	0.50	3,780	0.50	(3,579)
<hr/>				

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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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, demolition 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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:

	<i>Notes</i>	<b>Major overhauls HK\$'000</b>	<b>Provision for Onerous contracts HK\$'000</b>	<b>Total HK\$'000</b>
<b>Year ended 31 December 2019</b>				
At 1 January 2019		201,688	191,230	392,918
Additional provision	<i>9</i>	21,508	–	21,508
Increase in a discounted amount arising from the passage of time	<i>8</i>	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
<b>Year ended 31 December 2018</b>				
At 1 January 2018		186,609	199,534	386,143
Additional provision	<i>9</i>	21,362	–	21,362
Increase in a discounted amount arising from the passage of time	<i>8</i>	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



# NOTES TO FINANCIAL STATEMENTS

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## 38. OTHER NON-CURRENT LIABILITIES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Other liabilities – non-current portion ( <i>note 41</i> )	171,710	205,198
Deferred income ( <i>note</i> )	1,651,509	1,503,644
	<b>1,823,219</b>	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 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Deferred tax assets	1,638,766	1,423,522
Deferred tax liabilities	(2,576,094)	(2,250,422)
	<b>(937,328)</b>	(826,900)

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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:

	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 <i>(note (a))</i>	Withholding tax on unremitted profits HK\$'000 <i>(note (b))</i>	Net deferred tax assets/(liabilities) 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)

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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 HK\$'000	2018 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
Accruals		<b>1,660,385</b>	1,520,824
Defined benefit obligations – current portion	<i>36(b)</i>	<b>21,780</b>	15,549
Other liabilities	<i>(a)</i>	<b>6,848,191</b>	8,634,384
Due to holding companies	<i>28</i>	<b>2,386,965</b>	2,531,598
Due to related parties	<i>28</i>	<b>734,242</b>	525,665
Contract liabilities	<i>(b)</i>	<b>9,756,058</b>	8,391,029
		<b>21,407,621</b>	21,619,049
Portion classified as current liabilities		<b>(21,235,911)</b>	(21,413,851)
Non-current portion	<i>38</i>	<b>171,710</b>	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 BMC DR 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Short-term advances received from customers in respect of:</i>			
Sale of piped natural gas	<b>8,666,212</b>	7,553,199	6,719,156
Sale of brewery products	<b>1,029,574</b>	746,260	807,885
Provision of solid waste treatment services	<b>60,272</b>	91,570	79,368
<b>Total contract liabilities</b>	<b>9,756,058</b>	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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Consolidated profit for the year allocated to non-controlling interests	<b>221,398</b>	208,505
Dividends paid to non-controlling interests	<b>166,893</b>	137,901
Accumulated balances of non-controlling interests at the reporting date	<b>8,435,750</b>	8,519,569

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue	<b>11,826,321</b>	12,366,723
Total expenses	<b>(11,603,850)</b>	(12,144,793)
Profit for the year	<b>222,471</b>	221,930
Total comprehensive income/(loss) for the year	<b>105,249</b>	(97,199)
Current assets	<b>8,120,803</b>	7,407,517
Non-current assets	<b>13,152,673</b>	13,447,025
Current liabilities	<b>(6,424,044)</b>	(6,128,219)
Non-current liabilities	<b>(570,655)</b>	(271,292)
Net cash flows from operating activities	<b>1,519,945</b>	935,456
Net cash flows used in investing activities	<b>(513,660)</b>	(445,558)
Net cash flows used in financing activities	<b>(105,972)</b>	(643,860)
Net increase/(decrease) in cash and cash equivalents	<b>900,313</b>	(153,962)

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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:

	<i>Notes</i>	<b>2019 HK\$'000</b>
Net assets acquired:		
Property, plant and equipment	<i>15</i>	<b>984,455</b>
Right-of-use assets	<i>17(b)</i>	<b>751,948</b>
Other intangible assets	<i>20</i>	<b>358,646</b>
Inventories		<b>7,711</b>
Trade receivables		<b>269,254</b>
Prepayments, other receivables and other assets		<b>363,874</b>
Income tax recoverable		<b>7,099</b>
Cash and bank balances		<b>821,298</b>
Trade and bills payables		<b>(16,203)</b>
Other payables, accruals and contract liabilities		<b>(47,373)</b>
Bank and other borrowings		<b>(2,065,581)</b>
Lease liabilities	<i>17(b)</i>	<b>(339,182)</b>
Deferred tax liabilities	<i>39</i>	<b>(89,555)</b>
Total identifiable net assets at fair value		<b>1,006,391</b>
Non-controlling interest		<b>(439,963)</b>
		<b>566,428</b>
Goodwill on acquisition	<i>18</i>	<b>84,735</b>
		<b>651,163</b>
Satisfied by capital contribution to the acquiree in cash in 2018		<b>651,163</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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:

	<b>2019</b> <b>HK\$'000</b>
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	<b>821,298</b>

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.



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

### (b) Changes in liabilities arising from financing activities

	Bank and other borrowings <i>HK\$'000</i>	Guaranteed bonds and notes <i>HK\$'000</i>	Lease liabilities <i>HK\$'000</i>
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)	<b>28,497,908</b>	<b>31,024,807</b>	<b>570,048</b>
Changes from financing cash flows	<b>2,891,820</b>	–	<b>(334,103)</b>
New leases	–	–	<b>252,746</b>
Interest expense	–	<b>40,209</b>	<b>45,573</b>
Acquisition of subsidiaries <i>(note 43)</i>	<b>2,065,581</b>	–	<b>339,182</b>
Exchange realignment	<b>(329,058)</b>	<b>(423,774)</b>	<b>(24,429)</b>
At 31 December 2019	<b>33,126,251</b>	<b>30,641,242</b>	<b>849,017</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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:

	<b>2019</b> <b>HK\$'000</b>
Within operating activities	<b>189,227</b>
Within financing activities	<b>334,103</b>
	<b>523,330</b>

## 45. CAPITAL COMMITMENTS

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

	<b>2019</b> <b>HK\$'000</b>	2018 <i>HK\$'000</i>
Contracted, but not provided for:		
Buildings	<b>2,718</b>	4,731
Gas pipelines and plant and machinery	<b>4,168,848</b>	2,464,989
Service concession arrangements	<b>820,597</b>	188,746
Total	<b>4,992,163</b>	2,658,466

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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
<b>Non-controlling equity holders of subsidiaries and their associates:</b>				
北京燕京啤酒集團公司 and its associates	Purchase of bottle labels <sup>†</sup>	(i)	79,439	67,411
	Purchase of bottle caps <sup>†</sup>	(i)	44,656	51,541
	Canning service fees paid <sup>†</sup>	(ii)	34,081	11,912
	Comprehensive support service fees paid <sup>†</sup>	(iii)	17,665	18,506
	Land rental expenses <sup>†</sup>	(iv)	2,001	2,085
	Trademark licensing fees paid <sup>†</sup>	(v)	58,761	66,889
	Less: refund for advertising subsidies <sup>†</sup>	(v)	(7,428)	(2,052)
<b>Fellow subsidiaries:</b>				
北京北燃實業有限公司 and its subsidiaries	Sale of piped natural gas <sup>#</sup>	(vi)	512,831	230,593
	Engineering service income <sup>#</sup>	(vii)	23,156	25,741
	Comprehensive service income <sup>#</sup>	(vii)	2,023	7,425
	Engineering service expenses <sup>#</sup>	(vii)	165,978	207,020
	Comprehensive service expenses <sup>#</sup>	(vii)	90,345	42,886
	Building rental expenses <sup>#</sup>	(viii)	39,582	135,288
	Building rental income <sup>#</sup>	(viii)	851	–
	Purchase of goods <sup>*</sup>	(viii)	49,016	134,953
	Sale of goods <sup>#</sup>	(ix)	36,928	45,908
<b>Associate:</b>				
北京控股集團財務有限公司 ("BE Group Finance")	Interest expense <sup>®</sup>	(x)	38,627	64,210
	Interest income <sup>®</sup>	(x)	21,898	43,411

<sup>†</sup> 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.

<sup>#</sup> These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

<sup>®</sup> 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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 <i>HK\$’000</i>	2018 <i>HK\$’000</i>
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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 %	2018 %
Floating rate:				
Restricted cash and pledged deposits	<b>36,701</b>	39,983	<b>0.35</b>	0.35
Cash and cash equivalents	<b>10,546,688</b>	10,048,152	<b>0.35</b>	0.35
Bank and other borrowings	<b>30,128,023</b>	26,151,731	<b>3.89</b>	3.04
Fixed rate:				
Cash and cash equivalents	<b>11,612,233</b>	7,887,344	<b>1.10</b>	1.10
Bank and other borrowings	<b>2,840,069</b>	2,196,201	<b>3.84</b>	3.33
Guaranteed bonds and notes	<b>30,641,242</b>	31,024,807	<b>3.40</b>	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.

# NOTES TO FINANCIAL STATEMENTS

31 December 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	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
If Hong Kong dollar weakens against RMB by 5%	<b>390,825</b>	410,293	<b>3,818,961</b>	3,549,661
If Hong Kong dollar strengthens against RMB by 5%	<b>(390,825)</b>	(410,293)	<b>(3,818,961)</b>	(3,549,661)
If Hong Kong dollar weakens against EUR by 5%	<b>661</b>	399	<b>565</b>	672
If Hong Kong dollar strengthens against EUR by 5%	<b>(661)</b>	(399)	<b>(565)</b>	(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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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	Lifetime ECLs			Total HK\$'000
	ECLs	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	
	Stage 1 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
	<b>28,992,221</b>	<b>88,090</b>	<b>–</b>	<b>6,221,099</b>	<b>35,301,410</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Credit risk *(Continued)*

#### Maximum exposure and year-end staging *(Continued)*

At 31 December 2018

	12-month	Lifetime ECLs			Total HK\$'000
	ECLs	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	
	Stage 1 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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 <i>HK\$'000</i>	In the second year <i>HK\$'000</i>	In the third to fifth years, inclusive <i>HK\$'000</i>	Beyond five years <i>HK\$'000</i>	Total <i>HK\$'000</i>
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
	<b>37,943,883</b>	<b>16,998,688</b>	<b>32,379,491</b>	<b>13,166,852</b>	<b>100,488,914</b>

#### At 31 December 2018

	On demand or within one year <i>HK\$'000</i>	In the second year <i>HK\$'000</i>	In the third to fifth years, inclusive <i>HK\$'000</i>	Beyond five years <i>HK\$'000</i>	Total <i>HK\$'000</i>
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
	<b>27,778,576</b>	<b>11,021,253</b>	<b>46,383,329</b>	<b>11,400,875</b>	<b>96,584,033</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
If fair values increased by 5%	<b>113,262</b>	115,073	<b>211,403</b>	200,559
If fair values decreased by 5%	<b>(113,262)</b>	(115,073)	<b>(211,403)</b>	(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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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	<b>(22,195,622)</b>	(17,975,479)
Net borrowing	<b>41,571,871</b>	41,547,236
Total equity	<b>87,014,827</b>	81,015,372
Gearing ratio	<b>47.8%</b>	51.3%



# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 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 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
<b>ASSETS</b>		
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
<b>TOTAL ASSETS</b>	<b>74,757,909</b>	<b>70,700,016</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
EQUITY AND LIABILITIES		
Equity:		
Share capital	30,401,883	30,401,883
Reserves <i>(note)</i>	941,927	1,023,134
<b>TOTAL EQUITY</b>	<b>31,343,810</b>	31,425,017
Non-current liabilities:		
Bank and other borrowings	12,784,292	16,676,765
Lease liabilities	31,146	–
<b>Total non-current liabilities</b>	<b>12,815,438</b>	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	–
<b>Total current liabilities</b>	<b>30,598,661</b>	22,598,234
<b>TOTAL LIABILITIES</b>	<b>43,414,099</b>	39,274,999
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>74,757,909</b>	70,700,016

Hou Zibo  
*Director*

Tam Chun Fai  
*Director*

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

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

	Capital reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
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.

# FIVE YEAR FINANCIAL SUMMARY

31 December 2019

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the published audited financial statements and the annual report of the Company for the year ended 31 December 2018, is set out below:

## RESULTS

	Year ended 31 December				
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000
Revenue	60,149,945	55,958,834	57,508,025	67,764,770	<b>67,783,028</b>
Operating profit	1,929,945	2,547,072	2,177,855	2,435,720	<b>2,584,750</b>
Share of profits and losses of:					
Joint ventures	(183)	6,623	26,609	(6,715)	<b>28,810</b>
Associates	4,708,112	4,943,273	5,827,944	6,666,446	<b>6,982,418</b>
Profit before tax	6,637,874	7,496,968	8,032,408	9,095,451	<b>9,595,978</b>
Income tax	(681,961)	(857,723)	(845,131)	(1,158,810)	<b>(1,022,369)</b>
Profit for the year	5,955,913	6,639,245	7,187,277	7,936,641	<b>8,573,609</b>
ATTRIBUTABLE TO:					
Shareholders of the Company	5,667,378	6,235,883	6,880,378	7,577,383	<b>8,054,780</b>
Non-controlling interests	288,535	403,362	306,899	359,258	<b>518,829</b>
	5,955,913	6,639,245	7,187,277	7,936,641	<b>8,573,609</b>

# FIVE YEAR FINANCIAL SUMMARY

31 December 2019

## ASSETS, LIABILITIES AND TOTAL EQUITY

	<b>31 December</b>				
	2015	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	124,766,040	144,708,761	171,549,018	174,496,280	<b>185,806,276</b>
Total liabilities	(56,113,870)	(76,669,835)	(92,376,013)	(93,480,908)	<b>(98,791,449)</b>
<b>NET ASSETS</b>	<b>68,652,170</b>	<b>68,038,926</b>	<b>79,173,005</b>	<b>81,015,372</b>	<b>87,014,827</b>
Equity attributable to shareholders of the Company	58,187,267	57,321,208	67,568,050	69,672,617	<b>75,281,639</b>
Non-controlling interests	10,464,903	10,717,718	11,604,955	11,342,755	<b>11,733,188</b>
<b>TOTAL EQUITY</b>	<b>68,652,170</b>	<b>68,038,926</b>	<b>79,173,005</b>	<b>81,015,372</b>	<b>87,014,827</b>

# GLOSSARY

In this Report (except for the Independent Auditor's Report and the Financial Statements), the following expressions have the following meanings:

“2020 AGM”	:	forthcoming annual general meeting of the Company to be held on 18 June 2020
“AGM(s)”	:	annual general meeting(s) of the Company
“Articles of Association”	:	the current articles of association of the Company adopted on 11 June 2015
“Audit Committee”	:	audit committee of the Company
“BE Environment”	:	Beijing Enterprises Environment Group Limited, a company listed on the HKSE (stock code: 154)
“BE Group”	:	Beijing Enterprises Group Company Limited* (北京控股集團有限公司), a company incorporated in the PRC with limited liability. It is a state-owned enterprise wholly-owned by SASAC of Beijing Municipality and is the ultimate controlling shareholder of the Company
“BE Group BVI”	:	Beijing Enterprises Group (BVI) Company Limited
“BE Group Finance”	:	Beijing Enterprises Group Finance Co. Ltd.* (北京控股集團財務有限公司)
“BE Water”	:	Beijing Enterprises Water Group Limited, a company listed on the HKSE (stock code: 371)
“BEHET”	:	Beijing Enterprises Holdings Environment Technology Co., Ltd.* (北京北控環保工程技術有限公司)
“Beijing Gas”	:	Beijing Gas Group Company Limited
“BEIL”	:	Beijing Enterprises Investments Limited
“Biosino Bio-Tech”	:	Biosino Bio-Technology and Science Incorporation, a company listed on the HKSE (stock code: 8247)

## GLOSSARY

“Blue Sky”	:	Beijing Gas Blue Sky Holdings Limited, a company listed on the HKSE (stock code: 6828)
“Board”	:	the board of Directors
“Chief Executive” or “CEO”	:	the Chief Executive Officer of the Company
“China Gas”	:	China Gas Holdings Limited, a company listed on the HKSE (stock code: 384)
“Company” or “BEHL”	:	Beijing Enterprises Holdings Limited, a company listed on the HKSE (stock code: 392)
“Companies Ordinance”	:	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time
“Director(s)”	:	the director(s) of the Company
“EEW GmbH”	:	EEW Energy from Waste GmbH
“Euro” or “EUR”	:	the Euro, the lawful currency of the member states of the European Union
“Executive Director”	:	executive director of the Company
“Group”	:	The Company and its subsidiaries from time to time
“GSWM”	:	Golden State Waste Management Corporation
“HKSE” or “Hong Kong Stock Exchange”	:	The Stock Exchange of Hong Kong Limited
“HKFRSs”	:	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HK\$”	:	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	:	The Hong Kong Special Administrative Region of the People’s Republic of China

## GLOSSARY

“Independent Non-executive Director(s)” or “INED(s)”	: independent non-executive director(s) of the Company
“Investment Committee”	: investment committee of the Company
“Listing Rules”	: the Rules Governing the Listing of Securities on the HKSE
“Model Code”	: the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“MOL”	: Modern Orient Limited
“Nomination Committee”	: nomination committee of the Company
“PetroChina Beijing Pipeline Co.” or “PetroChina Beijing Gas”	: PetroChina Beijing Gas Pipeline Co., Ltd.* (中石油北京天然氣管道有限公司)
“PPP”	: public-private partnership
“PRC” or “China”	: the People’s Republic of China, and for the purpose of this Report, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Remuneration Committee”	: remuneration committee of the Company
“Report”	: this 2019 annual report of the Company
“RMB”	: Renminbi, the lawful currency of the PRC



## GLOSSARY

“SASAC of Beijing Municipality”	:	the State-owned Assets Supervision and Administration Commission of People’s Government of Beijing Municipality
“Senior Management”	:	member(s) of the senior management of the Company
“SFO”	:	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Shareholder(s)”	:	holder(s) of Share(s)
“Shares”	:	ordinary share(s) in the capital of the Company
“US\$”	:	United States dollar, the lawful currency of the United States of America
“VCNG”	:	PJSC Verkhnechonskneftegaz project of Rosneft Oil Company
“Yanjing Brewery”	:	Beijing Yanjing Brewery Co., Ltd.* (北京燕京啤酒股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000729)
“Yanjing Group” or “Yanjing Beer Group”	:	Beijing Yan Jing Beer Group Company* (北京燕京啤酒集團公司)
“Yanjing Huiquan”	:	FuJian YanJing HuiQuan Brewery Co., Ltd.* (福建省燕京惠泉啤酒股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600573)
“Yanjing Investment” or “Yanjing Limited”	:	Beijing Yanjing Brewery Investments Co., Ltd.* (北京燕京啤酒投資有限公司)

\* For identification purpose only





北京控股有限公司  
BEIJING ENTERPRISES HOLDINGS LIMITED