THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in **China Shangdong Hi-Speed Financial Group Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, the licensed securities dealer, registered institution in securities, or other agent through whom the sale or trans fer was effected for transmission to the purchaser or transferee.

中國山東高速金融集團有限公司
CHINA SHANDONG HI-SPEED FINANCIAL GROUP LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 412)

MAJOR TRANSACTION
ACQUISITION OF SALE SHARES
AND
NOTICE OF SPECIAL GENERAL MEETING

Capitalised terms used in this cover page shall have the same meaning as those defined in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 4 to 13 of this circular.

A notice convening the special general meeting ("**SGM**") of the Company to be held at Conference Room, 17th Floor, Agricultural Bank of China Tower, No. 50 Connaught Road Central, Hong Kong, on Friday, 24 December 2021 at 9 a.m., is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use at the SGM is also enclosed. Such form of proxy is also published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at http://www.csfg.com.hk.

Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the offices of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

PRECAUTIONARY MEASURES FOR THE SGM

Please refer to page ii of this circular for measures being taken to prevent and control the spread of the Novel Coronavirus 2019 (COVID-19) at the SGM, including:

- compulsory temperature checks and health declarations;
- recommended wearing of surgical face masks; and
- no distribution of corporate gifts and refreshments.

Any person who does not comply with the precautionary measures may be denied entry into the SGM venue. Attendees of the SGM should wear face masks at all times at the SGM venue and the Company reminds Shareholders that they may appoint the chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM as an alternative to attending the SGM in person.

8 December 2021

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In view of the ongoing Novel Coronavirus 2019 (COVID-19) pandemic and recent requirements for prevention and control of its spread, and taking into consideration of the guidelines issued by the Government of Hong Kong, the Company will implement the following preventive measures at the SGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

- Compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendee at the entrance of the SGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the SGM venue or be required to leave the SGM venue.

- All Shareholders, proxies and other attendees are required to complete and submit at the entrance of the SGM venue a declaration form by providing their names and contact details, and confirming that they have not travelled to, and to their best of knowledge, had no physical contact with any person who has recently travelled from the PRC or any overseas countries/territories at any time in the preceding 14 days. Any person who does not comply with this requirement may be denied entry into the SGM venue or be required to leave the SGM venue.

- Attendees shall wear surgical face masks inside the SGM venue at all times, and to maintain a safe distance between seats.

- No refreshments will be served, and there will be no corporate gifts.

To the extent permitted under law, the Company reserves the right to deny entry into the SGM venue or require any person to leave the SGM venue in order to ensure the safety of the attendees at the SGM.

In the interest of all stakeholders' health and safety and consistent with recent COVID-19 guidelines for prevention and control, the Company reminds all Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM instead of attending the SGM in person.

In this circular, unless the context otherwise requires, the following expressions have the meanings as set out below:

"Acquisition"	the proposed acquisition of the Sale Shares by the Purchaser from the Vendors pursuant to the terms and conditions of the SP Agreement
"Board"	the board of Directors
"Business Day(s)"	a day on which the Stock Exchange is open for the business to deal in securities
"BVI"	the British Virgin Islands
"Company"	China Shandong Hi-Speed Financial Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 412)
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the SP Agreement
"Completion Date"	the fifth Business Day after the date of fulfilment and/or waiver (if applicable) of all the Conditions Precedent set out in the SP Agreement
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	the total consideration of HK$1,273,360,000 payable by the Purchaser to the Vendors for the Acquisition
"Delayed Completion Date"	the postponed date of Completion decided by the non-defaulting party (at its discretion) if either the Purchaser or the Vendors fails to fulfil its obligations under the Completion as set out in the SP Agreement on the Completion Date, and such postponed date of Completion shall be within 10 Business Days from the Completion Date
"Director(s)"	director(s) of the Company
"Enlarged Group"	the Group as enlarged by the Acquisition after Completion
"Group"	the Company and its subsidiaries

"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	6 December, being the latest practical date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	the day falling on the fourth months from the date of the SP Agreement, or such other date as may be agreed by the Parties in writing
"Parties"	the parties of the SP Agreement and "Party" means any of them
"PRC"	the People's Republic of China and for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Purchaser"	Profit Plan Global Investment Limited, a limited company incorporated under the laws of the BVI and is indirectly wholly owned by the Company
"Sale Shares"	the 14,470,000,000 shares, i.e. approximately 22.78% of the issued share capital of the Target Company as at the date of this circular which consist of Sale Shares-A and Sale Shares-B
"Sale Shares-A"	the 7,235,000,000 shares, i.e. approximately 11.39% of the issued share capital of the Target Company as at the date of this circular held by Vendor-A
"Sale Shares-B"	the 7,235,000,000 shares, i.e. approximately 11.39% of the issued share capital of the Target Company as at the date of this circular held by Vendor-B
"SGM"	the special general meeting of the Company to be convened and held to consider, and if thought fit, approve the SP Agreement and the transactions contemplated thereunder

"SFC"	the Securities and Futures Commission of Hong Kong
"Share(s)"	ordinary share(s) in the capital of the Company
"Shareholders"	the shareholders of the Company
"SP Agreement"	the share purchase agreement dated 23 November 2021 entered into between the Purchaser and the Vendors in relation to the Acquisition
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Beijing Enterprises Clean Energy Group Limited, a company incorporated under the laws of the Cayman Island with limited liability and its shares are listed on the Stock Exchange (stock code: 1250)
"Target Group"	the Target Company and its subsidiaries
"Vendor-A"	CTSL Green Power Investment Limited, a limited company incorporated under the laws of the BVI
"Vendor-B"	CTSL New Energy Investment Limited, a limited company incorporated under the laws of the BVI
"Vendors"	collectively, Vendor-A and Vendor-B
"%"	per cent

中國山東高速金融集團有限公司
CHINA SHANDONG HI-SPEED FINANCIAL GROUP LIMITED

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(Stock Code: 412)

Executive Director and Chairman
Mr. Wang Xiaodong

Non-Executive Director and Vice Chairman
Mr. Zhu Jianbiao

Executive Directors
Mr. Liu Zhijie
Mr. Liu Yao

Non-Executive Directors
Mr. Liang Zhanhai
Mr. Chen Di
Mr. Wang Wenbo

Independent Non-Executive Directors
Mr. Guan Huanfei
Mr. Chan Wai Hei
Mr. Tan Yuexin
Mr. Jonathan Jun Yan

Registered Office
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong
17th Floor
Agricultural Bank of China Tower
No. 50 Connaught Road Central
Hong Kong

8 December 2021

To the Shareholders
Dear Sir or Madam,

MAJOR TRANSACTION
ACQUISITION OF SALE SHARES
AND
NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 23 November 2021 relating to the SP Agreement. On 23 November 2021 (after trading hours of the Stock Exchange), the Purchaser and the Vendors entered into the SP Agreement in relation to the Acquisition.

Upon Completion, the Group will be interested in approximately 22.78% of the issued share capital of the Target Company. The Target Company will not become a subsidiary of the Company and the financial results of the Target Company will not be consolidated into the financial statements of the Group. The Target Company shall be accounted for as interests in associates.

The primary purpose of this circular is to provide you with, among other matters, (i) further details of the Acquisition; (ii) the notice convening the SGM; and (iii) other information required under the Listing Rules.

THE SP AGREEMENT

The principal terms of the SP Agreement are set out below:

Date

23 November 2021 (after trading hours)

Parties

(i) the Purchaser (as purchaser)

(ii) Vendor-A and Vendor-B (as vendors)

Subject matter

The Sale Shares, representing approximately 22.78% issued share capital of the Target Company, will be sold free from any encumbrance and together with all rights as at or after the date of the SP Agreement attaching to them, including but not limited to all dividends declared in respect thereof, on and subject to the terms and conditions of the SP Agreement.

Consideration

The Consideration is HK$1,273,360,000, which shall be payable by cash by the Purchaser to the Vendors on Completion Date.

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendors on normal commercial terms taking into account of, among other things, the recent and historic price of the shares in the Target Company. The purchase price of HK$0.088 per Sale Share represents (a) a discount of approximately 1.12% over the average closing price of approximately HK$0.089 per share of the Target Company as quoted on the Stock Exchange for five consecutive trading days up to and including the last trading day before the date of the SP Agreement; and (b) a discount of approximately 9.74% over the average closing price of approximately HK$0.098 per share of the Target Company as quoted on the Stock Exchange for 30 consecutive trading days with no trading halt up to and including the last trading day before the date of the SP Agreement.

The Consideration will be financed by funds from external borrowings.

Conditions precedent

The Completion is conditional upon the fulfilment of the following conditions precedent (the "**Condition(s) Precedent**") on or before the Long Stop Date:

(A) the Target Company's listing on the Stock Exchange has not been withdrawn or revoked at any time before the Completion, and the shares in the Target Company will continue to be traded on the Stock Exchange at any time before the Completion (except for any short-term trading halt which does not exceed five consecutive trading days or other relevant periods that the Purchaser may agree in writing, or any trading halt related to the transactions contemplated under the SP Agreement), and the relevant announcements of the Target Company have not indicated that the Target Company's listing status will be suspended, cancelled, withdrawn or revoked at any time after the Completion due to the proposed transactions under the SP Agreement;

(B) the representations, warranties and/or undertakings provided by the Vendors set out in the SP Agreement remain true, completed, accurate and not misleading in all material respects at all times between the date of the SP Agreement and the Completion Date and there have been no material breaches by any Parties under the SP Agreement;

(C) the representations, warranties and/or undertakings provided by the Purchaser set out in the SP Agreement remain true, completed, accurate and not misleading in all material respects at all times between the date of the SP Agreement and the Completion Date and there have been no material breaches by any Parties under the SP Agreement;

(D) the SGM convened by the Company having approved to proceed the SP Agreement and the transactions proposed under it;

(E) the Purchaser and its associates have obtained all approvals required to proceed the SP Agreement and the transactions proposed under it, including but not limited to all approvals, consents, authorisation, registrations and filings of relevant governmental authorities (including but not limited to the Stock Exchange, the SFC and approvals required under applicable laws of other countries), institutions, organizations or any other third parties (including but not limited to banks or creditors);

(F) the Vendors' shareholders have passed resolutions to approve to proceed the SP Agreement and the transactions proposed under it and the Vendors having obtained the resolutions of the relevant funds investment management committee to approve the completion of the transactions proposed under the SP Agreement; and

(G) the Vendors have obtained all resolutions and approvals required to proceed the SP Agreement and the transactions proposed under it, including but not limited to all approvals, consents, authorisation, registrations and filings of the relevant government departments (including but not limited to the Stock Exchange, the SFC and approvals required under applicable laws of other countries), institutions or organizations or any other third parties (including but not limited to banks or creditors).

Except for Condition Precedent (B) which can be waived by the Purchaser and Condition Precedent (C) which can be waived by the Vendors in writing at all times, none of the other Conditions Precedent is waivable. In the event that any of the above Conditions Precedent are not being fulfilled and/or waived (if applicable) on or before the Long Stop Date, the SP Agreement shall become void and of no further effect and neither the Vendors nor the Purchaser shall be entitled to claim against the other Party regarding the obligations, liabilities or sale and purchase of the Sale Shares under the SP Agreement (without prejudice to the rights of the Parties in respect of any antecedent breaches), provided that such claim does not arise from any fault or negligence of any Party leading to the failure to fulfil any of the Conditions Precedent.

If (a) the Conditions Precedent (as herein after defined) are fulfilled, but the Completion does not take place because of the Purchaser's reasons; or (b) if Condition Precedent (E) is not fulfilled on or before the Long Stop Date despite the Stock Exchange has confirmed on or before the Long Stop Date that it has no further comments on the Circular, the Purchaser shall, within five Business Days from the Completion Date or the Delayed Completion Date (the later date shall prevail) or another later date as requested by the Vendors in writing, pay HK$15,000,000 in total to the Vendors as damages for indemnifying all losses suffered by the Vendors.

If the Conditions Precedent are fulfilled, but the Completion does not take place because of the Vendors' reasons, within five Business Days from the Completion Date or the Delayed Completion Date (the later date shall prevail) or another later date as requested by the Purchaser in writing, the Vendors shall pay to the Purchaser HK$15,000,000 as damages for indemnifying all losses suffered by the Purchaser.

As at the Latest Practicable Date, (i) Conditions Precedent (A), (B), (C) and (E) had been fulfilled; (ii) the Company was in the process of fulfilling Condition Precedent (D), which was expected to be fulfilled after convening the SGM; and (iii) the Vendors were in the process of fulfilling Conditions Precedent (F) and (G), which were expected to be fulfilled by around 8 December 2021.

Completion

Completion shall take place on the Completion Date after all the Conditions Precedent are fulfilled and/or waived (if applicable). Upon Completion, the Group will be interested in approximately 22.78% of the issued share capital of the Target Company. The Target Company will not become a subsidiary of the Company and the financial results of the Target Company will not be consolidated into the financial statements of the Group. The Target Company shall be accounted for as interests in associates.

INFORMATION OF THE PARTIES

Information of the Purchaser and the Group

The Purchaser is a company incorporated under the laws of the BVI with limited liability and an indirect wholly-owned subsidiary of the Company. It is principally engaged in investment holding.

The Company is an investment holding company incorporated in Bermuda with limited liability and its shares are listed on the Main Board of the Stock Exchange (stock code: 412).

The Group is principally engaged in various kinds of financial services, including provision of securities brokerage services, financial leasing, operation of an asset trading platform, investments in securities, money lending, investment holding and assets management.

Information of the Vendors

Vendor-A is a company incorporated in the BVI with limited liability and jointly-controlled by CPEChina Fund II, L.P. and CPEChina Fund IIA, L.P.. CPEChina Fund II, L.P. and CPEChina Fund IIA, L.P. are two exempted limited partnerships registered under the laws of the Cayman Islands. The general partner of CPEChina Fund II, L.P. and CPEChina Fund IIA, L.P. is Citron PE Associates II, L.P. (formerly known as CITIC PE Associates II, L.P.), an exempted limited partnership registered under the laws of the Cayman Islands, whose general partner is Citron PE Funds II Limited (formerly known as CITIC PE Funds II Limited). Citron PE Funds II Limited is wholly-owned by Citron PE Holdings Limited (formerly known as CITICPE Holdings Limited, "**Citron PE**"), which is owned as to 35% by CLSA Global Investments Management Limited. Other than CLSA Global Investments Management Limited, no other equity holders of Citron PE holds over one-third or more interest in Citron PE. CLSA Global Investments Management Limited is wholly owned by CLSA B.V., which is wholly owned by CITIC Securities International Company Limited, which in turn is wholly owned by CITIC Securities Company Limited ("**CITIC Securities**"), a company listed on both the Hong Kong Stock Exchange (Stock Code: 6030) and the Shanghai Stock Exchange. Vendor-A is principally engaged in the business of investment holding.

Vendor-B is a company incorporated in the BVI with limited liability and wholly-owned by CPE Private Equity Fund II (RMB)(北京信聿投資中心(有限合夥))(formerly known as北京中信投資中心(有限合夥)) ("**RMB Fund II**"). RMB Fund II is a limited partnership registered under the laws of the PRC. The general partner of RMB Fund II is Beijing Youde Investment (北京宥德投資管理中心(有限合夥), a limited partnership registered under the laws of the PRC whose general partner is Shanghai Pannuo Enterprise Management Service Company Limited (上海磐諾企業管理有限公司)("**Shanghai Pannuo**"), a limited liability company incorporated in the PRC. Shanghai Pannuo is wholly-owned by CITIC Private Equity Funds Management Co., Ltd. (中信產業投資基金管理有限公司)("**CITIC PE**"), which is in turn owned as to 35% by CITIC Securities. Other than CITIC Securities, no other equity holders of CITIC PE holds one-third or more interest in CITIC PE. Vendor-B is principally engaged in the business of investment holding.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendors and their respective ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons.

Information of the Target Company and Target Group

The Target Company is an investment holding company incorporated under the laws of the Cayman Islands with limited liability and its shares are listed on the Main Board of the Stock Exchange (stock code: 1250).

As at the date of this circular, the Target Group is principally engaged in investment, development, operation and management of photovoltaic power business, wind power business and clean heat supply business mainly in the PRC.

Financial information of the Target Group

Set out below are certain audited consolidated financial information of the Target Company for the two years ended 31 December 2019 and 2020 respectively as extracted from the audited financial statements of the Target Group.

	For the year ended 31 December 2019 (audited) *HK$'000*	For the year ended 31 December 2020 (audited) *HK$'000*
Revenue	6,335,620	5,551,791
Profit before tax	1,031,631	1,018,410
Profit for the year	842,086	886,440

As at 31 December 2020, the audited net asset value of the Target Group based on its audited accounts was approximately HK$13,124,890,000. As at 30 June 2021, the unaudited net asset value of the Target Group was approximately HK$13,650,110,000.

Controlling shareholder of the Target Company

Based on the information available to the Company, Fast Top Investment Limited ("**Fast Top**") is a company established under the laws of the BVI with limited liability and the registered holder of approximately 31.88% of the equity interest in the Target Company as at the date of the Latest Practicable Date and immediately after Completion. As at the date of the Latest Practicable Date, Fast Top's ultimate beneficial owner and de facto controller is Beijing Enterprises Group Company Limited, which is a wholly state-owned company established in the PRC with its principal business as investment, operation and management in municipal infrastructure and public utilities.

FINANCIAL EFFECT OF THE ACQUISITION TO THE GROUP

Upon Completion, the Group will be interested in approximately 22.78% of the issued share capital of the Target Company. The Target Company will not become a subsidiary of the Company and the financial results of the Target Company will not be consolidated into the financial statements of the Group. The Target Company shall be accounted for as interests in associates.

Assets and liabilities

Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this circular (assuming that the Acquisition had been completed on 30 June 2021), the total assets of the Group would have increased from approximately HK$22,677,429,000 to approximately HK$25,784,591,000 on a pro forma basis, and the total liabilities of the Group would have increased from approximately HK$13,006,115,000 to approximately HK$14,279,475,000 on a pro forma basis.

Earnings

Based on the unaudited pro forma financial information of the Enlarged Group, it is expected that the Group will recognise a negative goodwill as gain in income statement as a result of the Acquisition.

For details of the unaudited pro forma financial information of the Enlarged Group immediately following completion of the Acquisition, please refer to Appendix III to this circular.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Board believes that the Acquisition will bring commercial benefits to the Group for the following reasons:

The Acquisition is in line with the Group's investment strategies. The Target Group is committed to the investment, development, construction, operation and management of photovoltaic power businesses, wind power businesses and clean heat supply businesses in the PRC. The Target Group has also been exploring other clean energy businesses and international opportunities for strategic development and diversification, with an aim to become a leading integrated clean energy service provider. It steadily developed its operating capacity through the investment, development, construction, operation and management of clean energy power plant projects.

In addition, given that it is a global trend to fight against climate change and the PRC government has been actively adopting various measures to promote the development and use of renewable and clean energy, the Board considers that the business relating to clean energy has a promising prospect and growth trend and accordingly it is one of the Group's future strategies of its direct investment business to have more investments in the clean energy sector.

As a result, the Acquisition will be advantageous to the strategic development and investment performance of the Group. It will also provide the Group with an opportunity to widen its investment scope and diversify its investment portfolio.

The Directors consider that the terms of the SP Agreement are fair and reasonable, on normal commercial terms and are in the interests of the Shareholders as a whole.

IMPLICATIONS OF THE LISTING RULES

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceed 25% but all are less than 100%, the Acquisition constitutes a major transaction for the Company and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Given that the shares of the Target Company are listed on the Main Board of the Stock Exchange, the Company is exempted from including the accountant's report on the Target Company in this circular under Rule 4.01(3) of the Listing Rules.

SGM

A notice convening the SGM to be held at Conference Room, 17th Floor, Agricultural Bank of China Tower, No. 50 Connaught Road Central, Hong Kong on Friday, 24 December 2021 at 9 a.m. for the purpose of considering, and if thought fit, approving the Acquisition, is set out on pages SGM-1 to SGM-2 of this circular.

The ordinary resolution proposed to be approved at the SGM will be taken by poll. whereby any Shareholders and their respective close associates (as defined under the Listing Rules) who have a material interest in the Acquisition shall abstain from voting on the resolution in relation to the Acquisition to be proposed at the SGM. To the best of the Directors' knowledge, information and belief, as at the Latest Practicable Date, no Shareholder has a material interest in the Acquisition which is different from the other Shareholders. Therefore, no Shareholder would be required to abstain from voting on the proposed resolutions in relation to the Acquisition at the SGM. A form of proxy for use at the SGM is enclosed with this circular.

Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

CLOSURE OF REGISTER OF MEMBERS

In order to be eligible to attend and vote at the SGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 22 December 2021.

The register of members of the Company will be closed from Thursday, 23 December 2021 to Friday, 24 December 2021, both days inclusive, for determination of entitlements to attend and vote at the SGM and during which period no transfer of Shares will be registered.

RECOMMENDATION

The Directors consider that the terms of the Acquisition are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders to vote in favour of the resolutions to be proposed at the SGM.

MISCELLANEOUS

Your attention is also drawn to the addition information set out in the Appendices to this circular.

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

Completion of the Acquisition is subject to a number of Conditions Precedent which may or may not be fulfilled. Shareholders and the potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

Yours faithfully
By order of the Board
China Shandong Hi-Speed Financial Group Limited
Wang Xiaodong
Chairman

(I) FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the nine months ended 31 December 2018, and two years ended 31 December 2019 and 2020 and the six months ended 30 June 2021 are disclosed on pages 60 to 246 of the annual report of the Company for the nine months ended 31 December 2018, pages 57 to 228 of the annual report of the Company for the year ended 31 December 2019, pages 71 to 244 of the annual report of the Company for the year ended 31 December 2020 and pages 4 to 64 of the interim report of the Company for the six months ended 30 June 2021, all of which are published on the website of the Stock Exchange at www.hkexnews.hk, and the website of the Company at www.csfg.com.hk. Quick links to the annual reports and the interim report of the Company are set out below:

annual report of the Company published on 29 April 2019 for the nine months ended 31 December 2018:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn20190429435.pdf

annual report of the Company published on 20 April 2020 for the year ended 31 December 2019:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0420/2020042000331.pdf

annual report of the Company published on 30 April 2021 for the year ended 31 December 2020:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0430/2021043001239.pdf

interim report of the Company published on 17 September 2021 for the six months ended 30 June 2021:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0917/2021091700621.pdf

(II) WORKING CAPITAL

The Directors, after due and careful considerations, are of the opinion that, taking into account the expected completion of the Acquisition, the internal resources available and the existing available facilities of the Enlarged Group, the Enlarged Group will have sufficient working capital for its present requirements for at least twelve months from the date of publication of this circular in the absence of unforeseen circumstances.

(III) STATEMENT OF INDEBTEDNESS

At the close of business on 31 October 2021, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the indebtedness of the Enlarged Group was as follows:

Borrowings

The Group had (i) guaranteed and secured bank borrowings of approximately HK$118,008,000; (ii) guaranteed and unsecured bank borrowings of approximately HK$3,020,608,000; (iii) guaranteed and unsecured bonds of approximately HK$7,548,072,000; (iv) unguaranteed and unsecured bank borrowings of approximately HK$492,067,000; (v) guaranteed and secured bond of approximately HK$699,735,000; (vi) unguaranteed and unsecured bonds of approximately HK$10,038,000; and (vii) guaranteed and secured other borrowings of approximately HK$1,744,989,000.

The guaranteed and secured bank borrowings of approximately HK$118,008,000 were secured by finance lease receivables amounted to approximately HK$153,974,000.

The guaranteed and secured bond of approximately HK$699,735,000 was secured by a financial asset at fair value through other comprehensive income amounted to approximately HK$777,484,000.

The guaranteed and secured other borrowings of approximately HK$1,744,989,000 were secured by financial assets at fair value through other comprehensive income amounted to approximately HK$1,260,718,000, loans receivables amounted to approximately HK$1,594,384,000 and financial assets at fair value through profit or loss amounted to approximately HK$1,432,686,000.

Contingent liabilities

As at 31 October 2021, the Group did not have any material contingent liabilities.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group and the Target Company did not have outstanding at the close of business on 31 October 2021 (a) any debt securities issued and outstanding, and authorized or otherwise created but unissued; (b) any term loans; (c) any borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments; (d) any debentures, mortgages or charges; or (e) any guarantee or other contingent liabilities.

(IV) ACQUISITION AFTER 31 DECEMBER 2020

Reference is made to the announcements of the Company dated 2 August 2021 and 10 August 2021 respectively.

Qingdao Shangao Zhiyuan Private Equity Investment Fund Partnership (Limited Partnership)* 青島山高智遠私募股權投資基金合夥企業(有限合夥), a limited partnership established in accordance with the laws of the PRC ("**Qingdao Shangao**") and the management, policies and control of which are vested exclusively in an indirect wholly-owned subsidiary of the Company, as the purchaser entered into the equity transfer agreement dated 2 August 2021 (the "**Xinlian SPA**") with Shenzhen Genvict Technologies Co., Ltd. 深圳市金溢科技股份有限公司, a listed company in Shenzhen Stock Exchange with stock code 002869 ("**Shenzhen Genvict**") as the vendor in relation to the sale and purchase of the 2% of the equity interest in Shandong Expressway Xinlian Technology Co., Ltd.* 山東高速信聯科技股份有限公司 ("**Xinlian Technology**") for a total consideration of RMB100,000,000 (the "**Xinlian Acquisition**").

The total consideration of RMB100,000,000 (the "**Xinlian Consideration**") is payable in instalments in the following manner:

(a) RMB20,000,000 (being 20% of the Xinlian Consideration) shall be payable by Qingdao Shangao to Shenzhen Genvict within 30 working days after the date of the Xinlian SPA (the "**Xinlian Deposit**");

(b) RMB60,000,000 (being 60% of the Xinlian Consideration) shall be payable Qingdao Shangao to Shenzhen Genvict within five working days after 24 August 2021;

(c) The Xinlian Deposit shall be returned by Shenzhen Genvict to Qingdao Shangao within three working days after the completion of the filing of the relevant documents in relation to the Xinlian Acquisition with the relevant authority(ies) in the PRC; and

(d) RMB40,000,000 (being 40% of the Xinlian Consideration) shall be payable by Qingdao Shangao to Shenzhen Genvict within five working days after the date the Xinlian Deposit has been returned to Qingdao Shangao.

The Xinlian Consideration will be financed by the internal resources of the Group.

Xinlian Technology is a company incorporated in the PRC with limited liability. It was established in 2019 with a registered capital of RMB500,000,000. It operates an electronic toll collection (ETC) business in the Shandong province, the PRC, and is principally engaged in the business of providing users with ETC issuance services and comprehensive car-related services such as ETC-based data technology, online gas refueling, smart parking, smart car wash, etc..

As at the Latest Practicable Date, the completion under the Xinlian SPA has taken place.

The aggregate of the remuneration payable to and benefits in kind receivable by the directors of the acquiring company will not be varied in consequence of such acquisition.

(V) MATERIAL CHANGE

References are made to the positive profit alert announcement of the Company dated 28 July 2021 (the "**July Profit Alert**") published on the websites of the Stock Exchange and the Company regarding the expected increase in unaudited net profit for the six months ended 30 June 2021, as compared to the corresponding period in 2020. As disclosed in the July Profit Alert, such increase was primarily attributable to (a) a substantial increase in fair value gains on financial assets at fair value through profit and loss for more than approximately HK$120 million; and; (b) a significant decrease of approximately HK$150 million in the expected credit loss on financial assets for the for the six months ended 30 June 2021 as compared to the previous period in 2020. Please refer to the July Profit Alert and the 2021 interim report of the Company posted on 17 September 2021 for the financial results of the Group for the six months ended 30 June 2021 for further details.

Reference is also made to the positive profit alert announcement of the Company dated 5 February 2021 (the "**February Profit Alert**") in relation to the expected improvement in the loss before tax for the year ended 31 December 2020, as compared to the corresponding period in 2019. As disclosed in the February Profit Alert, such improvement was primarily attributable to (a) substantial improvement in fair value change on financial assets at fair value through profit or loss; (b) an approximate 42% jump in the consolidated revenue of the Group; (c) a non-recurring other income of approximately HK$189 million which was primarily attributable to the acquisition and subscription of the 60% equity interest in Kun Peng International Limited pursuant to the relevant share purchase agreement dated 29 December 2017. Please refer to the February Profit Alert and the 2020 annual report of the Company posted on 30 April 2021 for the financial results of the Group for the year ended 31 December 2020 for further details.

Up to and including the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up.

(VI) FINANCIAL AND TRADING PROSPECTS

Due to the impact of the COVID-19 pandemic, the growth of the Group's overall performance has been slowed down. However, there was an improvement in the financial performance of the Group for the first half of this year comparing to the same period last year. Upon completion of the Acquisition, the investment of the Group would be expanded to the clean energy sector and the Company is of the view that this sector has a promising prospect and investing in this sector could enhance the financial performance of the Group. In addition to continue to engage in the Group's existing business of financial services, the Group intends to explore the opportunities in industrial investments through mergers and acquisitions in order to diversify the businesses of the Group and enable the Group to have a stable growth in the future.

The Group will pay close attention to the potential impact of the COVID-19 pandemic on the market and its business and continue to adhere to the core development principle of "prudent compliance and steady development", take risk prevention and control as the core value and the priority of its development, implement comprehensive risk management, adhere to the bottom line of compliance and promote the steady development of its work. The Group will actively respond to challenges, leverage its strengths, and optimize and consolidate internal and external resources to enhance coordination and synergy across all business lines and explore new opportunities for sustainable growth while strengthening the foundation of its advantageous businesses. The Group will continue to seek potential acquisition targets that will create synergy with the Group and enhance its profitability.

1. FINANCIAL INFORMATION OF THE TARGET GROUP

Financial information of the Target Group for the three years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021 are disclosed on pages 68 to 190 of the annual report of the Target Company for the year ended 31 December 2018, pages 65 to 186 of the annual report of the Target Company for the year ended 31 December 2019, pages 71 to 188 of the annual report of the Target Company for the year ended 31 December 2020 and pages 32 to 59 of the interim report of the Target Company for the six months ended 30 June 2021, all of which are published on the website of the Stock Exchange at www.hkexnews.hk, and the website of the Target Company at www.bece.com.hk. Quick links to the annual reports and the interim report of the Target Company are set out below:

annual report of the Target Company published on 26 April 2019 for the year ended 31 December 2018:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn20190426663.pdf

annual report of the Target Company published on 29 April 2020 for the year ended 31 December 2019:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0429/2020042900547.pdf

annual report of the Target Company published on 29 April 2021 for the year ended 31 December 2020:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0429/2021042900695.pdf

interim report of the Target Company published on 21 September 2021 for the six months ended 30 June 2021:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0921/2021092100717.pdf

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE TARGET COMPANY

The following management discussion and analysis of the results of the Target Company is extracted from the annual report of the Target Company for the three years ended 31 December 2020, and the interim report for the six months ended 30 June 2021.

Management discussion and analysis of the results of the Target Company for the year ended 31 December 2018

Management Discussion and Analysis

31 December 2018

1. BUSINESS REVIEW

During the year ended 31 December 2018, the Group was principally engaged in the investment, development, construction, operation and management of photovoltaic power businesses (the "Photovoltaic Power Business"), wind power businesses (the "Wind Power Business") and clean heat supply businesses (the "Clean Heat Supply Business") in the PRC. It also had a non-core business in the design, printing and sale of cigarette packages (the "Cigarette Packaging Business") in the PRC which was disposed of in January 2018. Further details of the disposal of the Cigarette Packaging Business are set out in the Company's announcement dated 10 January 2018.

Financial highlights:

	2018	2017	Change
	HK$'000	HK$'000	%
Revenue	**6,980,270**	10,039,549	(30)
Gross profit	**2,922,248**	2,624,962	11
Profit for the year	**1,377,956**	1,576,326	(13)
Profit attributable to the equity holders of the Company	**1,268,645**	1,560,348	(19)
Basic EPS (in HK cents)	**1.99**	2.72	(27)
EBITDA	**3,475,657**	2,847,849	22
Total assets	**43,408,150**	35,995,682	21
Equity	**10,875,407**	9,004,029	21
Cash and cash equivalents	**2,768,362**	4,772,754	(42)

Details of the discussion of financial performance are set out in the section headed "2. Financial Performance" in "Management Discussion and Analysis". Analysis of the business performance is set out below .

Management Discussion and Analysis

31 December 2018

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations

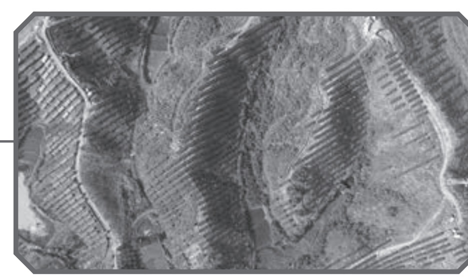
During the year, the Group steadily expanded its operating capacity through the investment, development, construction, operation and management of power plant projects, and the aggregate revenue in respect of the sale of electricity and the provision of entrusted management services amounted to approximately HK$3,040.2 million (2017: approximately HK$1,669.2 million), representing an increase of 82% as compared to the corresponding period of last year. The aggregate electricity sales volume in respect of the Group's sale of electricity during the year was approximately 2.89 million (2017: approximately 1.58 million) megawatt-hour ("MWh"), representing an increase of 83% as compared to the corresponding period of last year.

1.1.1 Photovoltaic Power Plant Projects

(a) Scale and performance of the centralised power plant projects

During the year, the Group's centralised photovoltaic power business expanded steadily through acquisition of businesses from independent third parties and development and construction of photovoltaic power plants. The Group recorded revenue of approximately HK$2,346.9 million (2017: approximately HK$1,392.4 million) from the sale of electricity from the Group's centralised photovoltaic power plants, representing 34% (2017: 14%) of the Group's total revenue during the year.

Centralised Photovoltaic Power Plant, Weishan County, Shandong Province



Centralised Photovoltaic Power Plant, Jinzhai County, Anhui Province

As at 31 December 2018, the total capacity of centralised photovoltaic power plant projects held or under joint development by the Group in the PRC reached over 2,400 megawatt ("MW"), with over 50 projects in aggregate covering 12 provinces, 1 municipality and 3 autonomous regions in the PRC. These projects were mainly situated in photovoltaic resource areas II and III as promulgated by the National Development and Reform Commission of the PRC (the "NDRC"), locations considered by the management to be favourable for the development of the Group's Photovoltaic Power Business.

In relation to the Group's international business, the Group's first overseas centralised photovoltaic power plant with an operating capacity of approximately 6MW situated in Whyalla, Southern Australia, Australia was put into operation in July 2018. It represents the first centralised photovoltaic power plant in Southern Australia developed by a Chinese renewable energy company, signifying the recognition of the Group's technical strength.

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.1 Photovoltaic Power Plant Projects (Continued)

(a) Scale and performance of the centralised power plant projects (Continued)

As at 31 December 2018, 52 (2017: 43) centralised photovoltaic power plants held by the Group were in operation, and the aggregate on-grid capacity of these photovoltaic power plants reached 2,074MW (2017: 1,784MW), which is analysed below:

Location	Photovoltaic resource area	2018 Number of plants	2018 Approximate total on-grid capacity (MW)	2018 Approximate electricity sales volume (note 1) (MWh)	2017 Number of Plants	2017 Approximate total on-grid capacity (MW)	2017 Approximate electricity sales volume (note 1) (MWh)
PRC – Subsidiaries:							
Hebei Province	II/III	**16**	**409**	**469,416**	12	324	352,828
Henan Province	III	**3**	**264**	**343,367**	3	264	283,193
Anhui Province	III	**6**	**191**	**191,760**	7	249	220,645
Shandong Province	III	**5**	**247**	**303,513**	5	235	121,622
Guizhou Province	III	**4**	**211**	**173,750**	3	155	–
Shaanxi Province	II	**2**	**160**	**235,501**	2	160	210,088
Jiangsu Province	III	**3**	**129**	**106,171**	–	–	–
Jiangxi Province	III	**3**	**125**	**136,890**	3	125	51,627
Ningxia Hui Autonomous Region	I	**1**	**100**	**136,138**	1	100	–
Hubei Province	III	**2**	**43**	**45,753**	2	43	20,901
Jilin Province	II	**1**	**30**	**47,693**	1	30	14,320
Tibet Autonomous Region	III	**1**	**30**	**26,280**	1	30	35,472
Yunnan Province	II	**1**	**22**	**32,639**	1	22	32,005
Shanxi Province	III	**1**	**20**	**29,557**	1	20	29,960
		49	**1,981**	**2,278,428**	42	1,757	1,372,661
PRC – Joint ventures:							
Hubei Province	III	**1**	**27**	**29,299**	1	27	28,273
Anhui Province (note 3)	III	**1**	**60**	**78,139**	–	–	–
		2	**87**	**107,438**	1	27	28,273
PRC – Sub-total		**51**	**2,068**	**2,385,866**	43	1,784	1,400,934
Overseas – Subsidiary:							
Whyalla, Southern Australia, Australia	N/A	**1**	**6**	**4,342**	–	–	–
Total		**52**	**2,074**	**2,390,208**	43	1,784	1,400,934

Management Discussion and Analysis

31 December 2018

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.1 Photovoltaic Power Plant Projects (Continued)

(a) Scale and performance of the centralised power plant projects (Continued)

Note 1: It represented the approximate electricity sales volume of the projects from the later of (i) the dates of acquisition by the Group; (ii) the dates of commencement of operation; and (iii) the beginning of the respective reporting periods, to the end of the respective reporting periods. Therefore, the above electricity sales volume does not reflect a full year performance of these operations.

Note 2: During the year ended 31 December 2018, the average unit selling price (excluding value-added tax) per kilowatt-hour of the above projects located in the PRC was approximately RMB0.84.

Note 3: The project was held by 潁上聚安光伏發電有限公司 (Yingshang Juan PV Power Generation Co., Ltd.*, "Yingshang Juan"), a then indirect wholly-owned subsidiary of the Group. Pursuant to an agreement dated 5 December 2018, the Group disposed of the entire interest in Yingshang Juan to 華潤北控(汕頭)新能源產業基金合夥企業(有限合夥)(CR BE (Shantou) New Energy Industrial Fund Partnership Corporation (Limited Partnership)*, "CRBE Fund", a joint venture of the Group) and 漢威潤能股權投資(汕頭)有限公司 (Hanwei Runneng Equity Investment (Shantou) Company Limited*, collectively with CRBE Fund, the "YSJA Purchasers"). Upon completion of the disposal on 14 December 2018, Yingshang Juan ceased to be a wholly-owned subsidiary and became a joint venture of the Group. Further details of the disposal are set out in the Company's announcement dated 5 December 2018. As a result of the above, the results of Yingshang Juan up to the date of disposal were consolidated into the Group's results during the year.

(b) Scale of the centralised photovoltaic power plant projects registered in the Subsidy Catalogues

On 11 June 2018, 12 photovoltaic power plants held by the Group with an aggregate installed capacity of approximately 384MW have been successfully registered into the seventh batch of the Renewable Energy Tariff Subsidy Catalogues (the "Subsidy Catalogues") according to the notice of the registration results for the seventh batch of the Subsidy Catalogues jointly made by the Ministry of Finance, NDRC and National Energy Administration. Alongside the Group's photovoltaic power plant registered in the sixth batch of the Subsidy Catalogues, the Group's aggregate installed capacity of the photovoltaic power plants registered into the Subsidy Catalogues reached approximately 434MW. During the year, settlements of the renewable energy subsidies of these power plants in the amount of approximately HK$470.4 million were received. The Group will continue its effort on registering the remaining photovoltaic power plant projects into the Subsidy Catalogues once upcoming Subsidy Catalogues are available for application.

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.1 Photovoltaic Power Plant Projects (Continued)

(c) Scale and performance of the distributed photovoltaic power plant projects

In respect of the distributed photovoltaic power business, as at 31 December 2018, the total installed capacity of the distributed photovoltaic power plants held and/or managed by the Group and in operation achieved over 600MW, mainly located in resource area III as promulgated by the NDRC such as Henan Province, Anhui Province, Shandong Province, Jiangsu Province and Hebei Province, which included the distributed photovoltaic power stations constructed by the Group in certain water plants of Beijing Enterprises Water Group Limited of which the Group sold electricity to respective water plants. Revenue from the sale of electricity from the Group's distributed photovoltaic power plants reached approximately HK$289.6 million during the year (2017: approximately HK$74.3 million).

Distributed Photovoltaic Power Station in a water plant of BEWG, Dongguan, Guangdong Province

(d) Key performance data of the centralised photovoltaic power plant projects held by the Group and in operation on or before the beginning of the reporting period

	2018	2017	Changes
Weighted average curtailment ratio (%)	**2.76**	7.24	(4.48)
Weighted average utilisation hours (hours)	**1,278**	1,293	(15)

The Group's centralised photovoltaic power plant projects are mainly located in photovoltaic resource areas II and III as promulgated by the NDRC and therefore a relatively low weighted average curtailment ratio was achieved. The improvement of weighted average curtailment ratio during the year as compared to the corresponding period of last year was mainly attributable to the improvement of curtailment ratio of the projects located in Shaanxi Province.

(e) Entrusted management services

In addition to the above-mentioned sale of electricity from the Group's photovoltaic power plants, the Group provided entrusted management services for photovoltaic power plant projects in the PRC and revenue of approximately HK$185.6 million (2017: approximately HK$136.7 million) was recognised during the year.

Management Discussion and Analysis

31 December 2018

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.2 Wind Power Plant Projects

The technology and cost improvements and the supportive government policies drive new business opportunities in the wind power industry, and in particular, in low-altitude regions such as the Central and Eastern regions of the PRC which in general do not have curtailment issue. In the meantime, the curtailment ratio also keeps improving with the supportive government policies and measures in recent years, enabling a healthier investing and operating industry environment to the market participants. With the Group's expertise on, among others, investing, developing and managing wind and other power businesses, the Group is optimistic on expanding its Wind Power Business to contribute its effort in building up a green future of the PRC.

Wind Power Plant, Binzhou, Shandong Province

Wind Power Plant, Baotou City, The Inner Mongolia Autonomous Region

(a) Scale and performance of the wind power plant projects

During the year, the Group's Wind Power Business expanded steadily. The Group recorded revenue of approximately HK$113.2 million (2017: approximately HK$65.8 million) from the sale of electricity from the Group's wind power plants.

As at 31 December 2018, through self-development, joint development, acquisitions, etc., the Group's aggregate capacity of the grid-connected, under-construction and approved-to-construct wind power projects reached over 1,300MW. These projects mainly located in Hebei Province, Henan Province, Shandong Province and the Inner Mongolia Autonomous Region and mainly situated in resource area IV as promulgated by the NDRC. Among which, 4 projects (2017: 1 project) with an aggregate on-grid capacity of 117MW (2017: 48MW) were held by the Group and in operation as at 31 December 2018, which is analysed below:

		2018			2017		
Location	Wind resource area	Number of plants	Approximate total on-grid capacity (MW)	Approximate electricity sales volume (note 1) (MWh)	Number of Plants	Approximate total on-grid capacity (MW)	Approximate electricity sales volume (note 1) (MWh)
PRC – Subsidiaries:							
The Inner Mongolia Autonomous Region	I	3	69	87,630	–	–	–
Shandong Province	IV	1	48	109,928	1	48	108,227
Total		4	117	197,558	1	48	108,227

Note 1: It represented the approximate electricity sales volume of the projects from the later of (i) the dates of acquisition by the Group; (ii) the dates of commencement of operation; and (iii) the beginning of the respective reporting periods, to the end of the respective reporting periods. Therefore, the above electricity sales volume does not reflect a full year performance of these operations.

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.2 Wind Power Plant Projects (Continued)

(b) Scale of the wind power plant projects registered in the Subsidy Catalogues

On 11 June 2018, a wind power plant located in Shandong Province, the PRC held by the Group with an installed capacity of 48MW has been successfully registered into the seventh batch of the Subsidy Catalogues. Alongside the two wind power plants located in the Inner Mongolia Autonomous Region, the PRC, which were acquired by the Group during the year with an aggregate installed capacity of 40MW and were registered in the fourth and sixth batches of the Subsidy Catalogues, the Group's aggregate installed capacity of the wind power plants registered into the Subsidy Catalogues reached 88MW. During the year, settlements of the renewable energy subsidies of these power plants in the amount of approximately HK$61.3 million were received.

(c) Key performance data of the wind power plant project held by the Group and in operation on or before the beginning of the reporting period

The curtailment ratio reduced from 2.14% during the year ended 31 December 2017 to 0.10% during the year ended 31 December 2018. The actual utilisation improved from 2,255 hours during the year ended 31 December 2017 to 2,308 hours during the year ended 31 December 2018.

(d) Entrusted management services

In addition to the above-mentioned sale of electricity from the Group's wind power plants, the Group provided entrusted management services for wind power plant projects in the PRC and revenue of approximately HK$104.9 million (2017: Nil) was recognised during the year.

1.2 Engineering, Procurement and Construction Services, and Technical Consultancy Services

The Group is engaged in the provision of engineering, procurement and construction services for clean energy businesses including photovoltaic and wind power-related projects and clean heat supply projects in the PRC, and has couples of qualification and extensive experience in the design, engineering and construction of power-related projects. During the year, the Group accommodated the industry policies and adjusted its business structure by facilitating the development of businesses with higher gross profit ratio and stronger sustainability (such as sales of electricity and clean heat supply), improving the quality of existing projects and reducing the focus on construction services business which has a lower gross profit ratio. Revenue of approximately HK$3,085.4 million (2017: approximately HK$6,952.1 million) in aggregate arising from provision of engineering, procurement and construction services was recognised during the year, representing 44% (2017: 69%) of the Group's total revenue during the year and a decrease of 56% as compared to the corresponding period of last year. Nevertheless, following the expansion of the Clean Heat Supply Business, construction services revenue on clean heat supply facilities and related network connection services increased from approximately HK$66.6 million during the year ended 31 December 2017 to approximately HK$426.6 million during the year ended 31 December 2018.

Management Discussion and Analysis

31 December 2018

1. BUSINESS REVIEW (CONTINUED)

1.2 Engineering, Procurement and Construction Services, and Technical Consultancy Services (Continued)

In addition to the above, certain photovoltaic power plant and clean heat supply projects locating in Shandong and Shanxi provinces, the PRC, on a build-operate-transfer basis (the "BOT Basis") were under construction during the year. With reference to HK (IFRIC) Interpretation 12 *Service Concession Arrangements*, construction revenue of approximately HK$246.1 million (2017: approximately HK$1,013.2 million) was recognised during the year with reference to the fair value of construction services delivered during the construction phase. The fair value of such services is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the inception date of the relevant service concession agreements. The decrease in construction revenue on a BOT Basis was attributable to completion of the construction of a centralised photovoltaic project on a BOT Basis located in Shandong Province, the PRC.

In respect of the technical consultancy services, the Group successfully marketed the aforementioned qualification and experience to other industry participants. Revenue of approximately HK$300.3 million (2017: approximately HK$205.8 million) was recognised during the year.

1.3 Provision of Clean Heat Supply Services

Clean heat supply represents the production of low emission heat through the utilisation of clean energies such as natural gas, electricity, geothermal energy, biomass energy, photovoltaic power, industrial excess heat energy, clean coal (ultra-low emission) energy, river water source etc., and the supply of such heat to end users. In 2017, 83% of the heat supply region in the Northern PRC adopts coal as the source of heat supply, and increasing the proportion of clean heat supply usage shall improve the air pollution issue in the PRC. With various supportive government policies issued including but not limited to the issuance of "the Notice on the Winter Clean Heat Plan (2017 to 2021) of the Northern China*" ("關於印發北方地區冬季清潔取暖規劃(2017-2021年)的通知") jointly by ten government authorities in December 2017, the Clean Heat Supply Business shall have a favourable business prospects.

Clean coal consumption and power plant excess heat energy centralised heat supply project in Yinchuan City, Ningxia Hui Autonomous Region

As at 31 December 2018, through development and business acquisition, 14 projects in operation with an aggregate actual clean heat supply area of over 23 million square meters locating in Henan, Hebei, Shanxi, Shaanxi, Ningxia Hui Autonomous Region, Liaoning, Shandong and other provinces were held and/or managed by the Group. Revenue of approximately HK$308.3 million (2017: approximately HK$20.4 million) arising from the provision of clean heat supply services was recognised by the Group during the year, representing an increase of approximately 14 times as compared to the corresponding period of last year.

1.4 Other Clean Energy Businesses

The Group has been exploring other clean energy businesses such as multi-energy complement, energy storage, micro-grid network technologies, geothermal power, distribution and sales of electricity and other business lines, and exploring international opportunities for strategic development and diversification, with an aim to become a leading integrated clean energy service provider.

1. BUSINESS REVIEW (CONTINUED)

1.4 Other Clean Energy Businesses (Continued)

1.4.1 Energy Storage Business

Energy storage is one of the key components and technologies for the energy structure reform and the clean energy power replacement in terms of enhancing the consumption of clean energy such as photovoltaic and wind power, improving the flexibility, cost-effectiveness and safety of the power system and the power grid, and supporting the developments of micro-grid network and multi-energy complement. It can be adopted for various power-related services including peak shaving and frequency modulation of the power system, and there is a broad development prospect.

The Group steadily developed its energy storage business and completed the construction of certain demonstrative and operating projects with an aggregate capacity of approximately 69MWh locating in Beijing, Tibet Autonomous Region, Jiangsu Province and Shanxi Province, the PRC during the year. In particular, the photovoltaic energy storage demonstrative project with a capacity of 20MWh in Tibet Autonomous Region, the PRC was awarded as the "Top Ten Models of Energy Storage Application and Innovation in 2018*" ("二零一八年度十大儲能應用創新典範") in the Second International Energy Storage Innovation Competition*（第二屆國際儲能創新大賽）organised by the China Energy Research Society*（中國能源研究會）.

The Group's energy storage technology and development is well-recognised by the industry. At the 8th China International Energy Storage Conference*（第八屆中國國際儲能大會）organised by the committee of China International Energy Storage Conference*（中國國際儲能大會組委會）, the Group was awarded the "2018 China Energy Storage Industry Best Photovoltaic Storage Integration Solution Award*" ("二零一八年度中國儲能產業最佳光儲充一體化解決方案獎"), the "2018 China Energy Storage Industry Best System Integration Solution Supplier Award*" ("二零一八年度中國儲能產業最佳系統集成解決方案供應商獎") and the "2018 China Energy Storage Industry Best Design Institution Award*" ("二零一八年度中國儲能產業最佳設計院獎"). Besides, at the 2018 Global Solar and Energy Storage Congress and Expo*（二零一八中國國際光儲充大會）organised by Eastern China Energy Storage Alliance*（華東儲能領跑者聯盟）, the Group was awarded the "Global Excellent Investors Award*" ("全球卓越投資商獎") and the "Best Micro-grid Application Project of the Energy Storage Industry" ("儲能產業最佳微電網應用項目獎").

Management Discussion and Analysis

31 December 2018

1. BUSINESS REVIEW (CONTINUED)

1.4 Other Clean Energy Businesses (Continued)

1.4.2 Geothermal Business

Geothermal energy is a green, low-carbon and recyclable renewable energy with the characteristics of huge reserves, broad distribution, clean and environmental friendly, stability and reliability, and is a practical and competitive clean energy resource. The PRC has abundant resources, huge market potential and broad development prospects in respect of the geothermal energy. Accelerating the development and utilisation of geothermal energy is of great significance for the adjustment of energy structure, energy conservation, emission reduction and improvement of the environment, has remarkable pulling effects for cultivating emerging industries, facilitating new urbanisation development and creating job opportunities, and serves as an important measure to facilitate the construction of ecological civilisation. The "Thirteen Five-year Plan on the Development and Utilisation of Geothermal Energy"* (《地熱能開發利用十三五規劃》) published by the NDRC, the National Energy Administration and the Ministry of Land and Resources on 23 January 2017 sets out the guidelines, objectives, key tasks and significant layout for the development and utilisation of geothermal energy as well as the protection measures for the implementation of the plan, and is the basis of the development and utilisation of geothermal energy in the PRC during the Thirteen Five-Year Plan period and the first national-level plan for geothermal energy aspect.

As disclosed in the Company's announcement dated 23 November 2018, the Group acquired the new exploration right in Tibet Autonomous Region, the PRC covering an area of approximately 105 square kilometres. The Company will continue to conduct in-depth researches, organise various exploration activities and facilitate the tasks necessary for the development of the project in due course, including the acquisition of relevant resource exploitation right and the utilisation of geothermal energy on areas such as power generation and heat supply, when the project is profitable and when the relevant clean energy resource can be effectively utilised.

2. FINANCIAL PERFORMANCE

2.1 Revenue and gross profit margin

The Group recorded revenue of approximately HK$6,980.3 million (2017: approximately HK$10,039.5 million) during the year ended 31 December 2018, representing a decrease of 30% as compared to the corresponding period of last year. During the year, the Group accommodated the industry policies and adjusted its business structure by facilitating the development of businesses with higher gross profit ratio and stronger sustainability (such as sales of electricity and clean heat supply), improving the quality of existing projects and reducing the focus on construction services business which has a lower gross profit ratio. Accordingly, (i) revenue from the sale of electricity and entrusted management services reached approximately HK$3,040.2 million (2017: approximately HK$1,669.2 million) in aggregate, representing an increase of 82% as compared to the corresponding period of last year; and (ii) construction services revenue was approximately HK$3,331.5 million (2017: approximately HK$7,965.3 million), representing a decrease of 58% as compared to the corresponding period of last year.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.1 Revenue and gross profit margin (Continued)

The gross profit performance by each business nature is set out below:

	2018			2017		
	Revenue (HK$ million)	**Gross profit ratio (%)**	**Gross profit (HK$ million)**	Revenue (HK$ million)	Gross profit ratio (%)	Gross profit (HK$ million)
Sale of electricity						
Photovoltaic Power Business	**2,636.5**	**66.3**	**1,747.7**	1,466.7	69.4	1,018.6
Wind Power Business	**113.2**	**61.0**	**69.1**	65.8	60.2	39.6
Construction services	**3,331.5**	**15.0**	**500.9**	7,965.3	15.0	1,191.3
Technical consultancy services	**300.3**	**86.6**	**260.0**	205.8	89.9	185.1
Entrusted operations	**290.5**	**88.6**	**257.4**	136.7	90.0	123.0
Provision of clean heat supply services	**308.3**	**28.3**	**87.1**	20.4	31.4	6.4
Sale of cigarette packages	**–**	**–**	**–**	178.8	34.1	61.0
Total	**6,980.3**	**41.9**	**2,922.2**	10,039.5	26.1	2,625.0

Analysis of the above businesses are set out in the section headed "1. Business Review" in "Management Discussion and Analysis".

Gross profit for the sale of electricity increased from approximately HK$1,058.2 million for the year ended 31 December 2017 to approximately HK$1,816.8 million during the year ended 31 December 2018, representing 62% (2017: 40%) to the total gross profit of the Group. The increase in contribution of sale of electricity to the Group's total gross profit was mainly attributable to the steady expansion of the Group's operating capacity of the photovoltaic and wind power plant projects. On the other hand, contribution of construction services to the Group's total gross profit was 17% (2017: 45%) during the year. As a result of the change in revenue structure, overall gross profit percentage increased from 26.1% during the year ended 31 December 2017 to 41.9% during the year ended 31 December 2018.

2.2 Other income and gains, net

The Group's other income and gains, net achieved approximately HK$334.1 million (2017: approximately HK$183.0 million) during the year, which mainly comprised (i) gains on disposal of interests in subsidiaries of approximately HK$69.2 million (2017: approximately HK$35.2 million) in aggregate; (ii) interest income of approximately HK$89.9 million (2017: approximately HK$89.9 million); (iii) government grants of approximately HK$148.3 million (2017: approximately HK$54.1 million); and (iv) gains on bargain purchase of subsidiaries of approximately HK$22.7 million (2017: Nil).

Management Discussion and Analysis

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2. FINANCIAL PERFORMANCE (CONTINUED)

2.3 Administrative expenses

Administrative expenses mainly consisted of staff costs and head office expenses such as due diligence, office rental and legal and professional fees. The increase in administrative expenses to approximately HK$664.3 million (2017: approximately HK$476.7 million) was mainly attributable to the increases in (i) staff costs by approximately HK$108.8 million as a result of the development and expansion of the Group's clean energy businesses; (ii) due diligence and legal and professional fees by approximately HK$22.2 million for potential projects, new projects and existing operation; (iii) office rental by approximately HK$15.4 million for business expansion; and (iv) equity-settled share option expenses by approximately HK$16.5 million arising from the Company's share options granted on 18 September 2017.

2.4 Other operating expenses, net

It mainly represented loss allowances of financial assets of approximately HK$35.8 million in aggregate. Upon the adoption of HKFRS 9 on 1 January 2018, impairment analysis is performed by the Group using a simplified approach for contract assets and trade receivables, and under general approach for the remaining financial instruments. Loss allowances for (i) contract assets and trade and bills receivables of approximately HK$25.7 million have been recognised for the year ended 31 December 2018, and approximately HK$18.7 million have been recognised to the retained earnings on 1 January 2018 during transition to HKFRS 9; and (ii) deposits and other receivables of approximately HK$10.1 million have been recognised for the year ended 31 December 2018, and approximately HK$4.1 million have been recognised to the retained earnings on 1 January 2018 during transition to HKFRS 9.

2.5 Finance costs

The increase in finance costs of the Group by approximately HK$505.2 million to approximately HK$975.2 million (2017: approximately HK$470.0 million) was mainly attributable to the increase in the average balances of bank and other borrowings and finance lease payables of the Group as compared to the corresponding period of last year.

2.6 Income tax expense

The Group conducted its principal activities in the PRC and the relevant standard corporate income tax rate was 25%. The Group's effective tax rate was lower than the standard corporate income tax rate in the PRC as certain of the Group's operating subsidiaries enjoyed tax concession benefits during the corresponding years.

2.7 Property, plant and equipment

Property, plant and equipment mainly represented the carrying amounts of clean energy projects held by the Group and in operation or under construction, and the increase was mainly attributable to the acquisition and development of clean energy projects during the year.

2.8 Investment properties

The Group's investment properties mainly represented the fair value of an office in Hong Kong and were leased to an independent third party during the year.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.9 Prepaid land lease payments

The increase in prepaid land lease payments was mainly attributable to the acquisition and development of clean energy projects during the year.

2.10 Goodwill

It was attributable to the acquisition of subsidiaries since 2016 and the increase was mainly attributable to the acquisition of clean energy projects during the year.

2.11 Operating concessions and operating rights

Operating concessions represented the rights to operate certain photovoltaic power plant and clean heat supply projects under the BOT Basis, and operating rights represented the operating rights arising from the acquisition of clean energy businesses with reference to HKFRS 3 (Revised) *Business Combinations*. The increase in operating concessions was mainly attributable to the acquisition and construction of certain clean energy projects on a BOT Basis, and the increase in operating rights was attributable to the acquisition of photovoltaic and wind power and clean heat supply businesses during the year.

2.12 Investments in joint ventures

It mainly represented the capital contributions made by the Group to the limited partnerships established in the PRC and joint ventures established for conducting the clean energy businesses.

2.13 Investments in associates

It represented (i) the Group's investment in Sichuan Jinyu Automobile City (Group) Co., Ltd.*(四川金宇汽車城（集團）股份有限公司, "Sichuan Jinyu", a company established in the PRC and shares of which are listed on the Shenzhen Stock Exchange (stock code: SZ.000803)), an associate owned as to 17.72% by the Group and was principally engaged in the manufacture and sale of renewable energy and clean heat supply equipment; and (ii) the Group's investment in Beijing Enterprises City Investment Holdings Group Co., Ltd*（北控城投控股集團有限公司）, an associate owned as to 15% by the Group and was principally engaged in the investment, development and operation of infrastructural and properties-related businesses in the PRC.

2.14 Other non-current assets

It represented materials and equipment sold and delivered to independent third parties for the development of photovoltaic power plant projects.

2.15 Contract assets and amounts due from contract customers

Upon adoption of HKFRS 15, amounts due from contract customers were reclassified to contract assets at beginning of the reporting period. Amounts due from contract customers as at 31 December 2017 of approximately HK$2,028.9 million were mainly attributable to receivables from the provision of engineering, procurement and construction services for clean energy projects.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.15 Contract assets and amounts due from contract customers (Continued)

Contract assets as at 31 December 2018 of approximately HK$4,501.7 million represented (i) gross receivables of approximately HK$2,033.8 million mainly arising from the provision of engineering, procurement and construction services for clean energy projects; (ii) gross receivables of approximately HK$2,491.8 million in relation to the central government renewable energy subsidy for photovoltaic and wind power plant projects that were to be billed and settled upon registering into the Subsidy Catalogues; and (iii) loss allowances of contract assets of approximately HK$23.9 million. Upon the adoption of HKFRS 15, the related balance of approximately HK$1,626.8 million at beginning of the reporting period was reclassified from unbilled trade and bills receivables to contract assets.

2.16 Trade and bills receivables

Trade and bills receivables of approximately HK$3,289.6 million (2017: approximately HK$4,502.0 million) as at 31 December 2018 were mainly attributable to (i) gross receivables from the sale of electricity of the Photovoltaic Power Business and the Wind Power Business of approximately HK$941.1 million (2017: approximately HK$1,965.0 million); (ii) gross receivables from the provision of engineering, procurement and construction services for clean energy businesses of approximately HK$2,087.2 million (2017: approximately HK$2,485.3 million); and (iii) loss allowances of trade and bills receivables of approximately HK$19.3 million.

As at 31 December 2018, gross trade receivables for the sale of electricity of the Photovoltaic Power Business and the Wind Power Business mainly comprised (i) receivables of approximately HK$149.9 million from the sale of electricity mainly to State Grid Corporation, a state-owned enterprise principally engaged in the development and operation of nationwide power network; and (ii) receivables of approximately HK$711.8 million in relation to the central government renewable energy subsidy for photovoltaic and wind power plant projects that have been registered into the Subsidy Catalogues. Subsidies amounted to approximately HK$503.0 million were received by the Group during the year.

The decrease in trade receivables for the sale of electricity was primarily attributable to the reclassification of receivables of approximately HK$1,626.8 million in relation to the central government renewable energy subsidy for photovoltaic and wind power plant projects that were to be billed and settled upon registered into the Subsidy Catalogues to contract assets at beginning of the reporting period, and the decrease in trade and bills receivables from the provision of engineering, procurement and construction services was mainly due to the decrease in the extent of construction services provided for and settlements of receivables from customers during the year.

2.17 Prepayments, deposits and other receivables, and other tax recoverables

The increase in prepayments, deposits and other receivables and other tax recoverables by approximately HK$2,910.9 million in aggregate to approximately HK$7,961.0 million (2017: approximately HK$5,050.1 million) in aggregate (non-current portion and current portion increased by approximately HK$1,734.3 million and approximately HK$1,176.6 million in aggregate respectively) was mainly attributable to the increases in prepayments, deposits and other receivables for the acquisition and development of clean energy projects and input value-added-tax recoverables arising from the acquisition and development of photovoltaic and wind power plants.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.18 Cash and cash equivalents

The decrease in cash and cash equivalents by approximately HK$2,004.4 million to approximately HK$2,768.4 million (2017: approximately HK$4,772.8 million) was mainly attributable to net effect of (i) the net increase in bank and other borrowings and finance lease payables; (ii) cash inflow on the issuance of the Perpetual Capital Instrument as defined in section headed "2.23 Liquidity and financial resources" in "Management Discussion and Analysis"; (iii) cash outflow on developing, acquiring and operating clean energy projects; and (iv) receipts of trade and bills receivables during the year.

2.19 Trade and bills payables

Trade and bills payables of approximately HK$4,375.8 million (2017: approximately HK$4,631.4 million) mainly represented trade and bills payables in relation to the provision of engineering, procurement and construction services.

2.20 Other payables and accruals

Other payables and accruals of approximately HK$5,101.1 million (2017: approximately HK$4,043.3 million) increased by approximately HK$1,057.8 million, which was mainly due to the net effect of (i) settlement of construction and equipment payables to contractors and suppliers in relation to the projects held by the Group; and (ii) increase in the construction and equipment payable of projects acquired or under development by the Group during the year.

2.21 Interest-bearing bank and other borrowings and finance lease payables

Interest-bearing bank and other borrowings and finance lease payables of approximately HK$22,242.5 million (2017: approximately HK$17,708.7 million) in aggregate increased by approximately HK$4,533.8 million in aggregate (non-current portion and current portion increased by approximately HK$4,315.0 million in aggregate and approximately HK$218.8 million in aggregate respectively), which was mainly attributable to the drawdown of bank and other borrowings and finance lease payables for the development of the clean energy businesses.

2.22 Capital expenditures

During the year ended 31 December 2018, the Group's total capital expenditures amounted to approximately HK$8,040.3 million (2017: approximately HK$8,564.6 million), comprising (i) development of photovoltaic and wind power plant projects, clean heat supply projects, and other property, plant and equipment of approximately HK$3,311.4 million (2017: approximately HK$4,062.1 million) in aggregate; (ii) addition to prepaid land lease payments of approximately HK$30.0 million (2017: approximately HK$53.1 million); (iii) acquisition of other intangible assets of approximately HK$13.5 million (2017: approximately HK$7.2 million); (iv) investments in and acquisition of equity interests in subsidiaries, joint ventures, associates and an available-for-sale investment of approximately HK$4,685.4 million (2017: approximately HK$4,267.2 million); and (v) acquisition of investment properties of nil (2017: approximately HK$175.0 million).

2. FINANCIAL PERFORMANCE (CONTINUED)

2.23 Liquidity and financial resources

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

As at 31 December 2018, the Group's cash and cash equivalents amounted to approximately HK$2,768.4 million (2017: approximately HK$4,772.8 million).

Developments of the clean energy businesses require material initial capital investments and the Group funds such developments during the year mainly by (i) long-term bank and other borrowings and finance lease payables; (ii) perpetual capital instrument; and (iii) unutilised net proceeds raised from the open offer completed in September 2017 as illustrated below.

(a) Long-term bank and other borrowings and finance lease payables

As at 31 December 2018, the Group's total borrowings of approximately HK$22,242.5 million (2017: approximately HK$17,708.7 million) comprised (i) bank and other borrowings of approximately HK$7,550.2 million (2017: approximately HK$6,530.1 million); and (ii) finance lease payables of approximately HK$14,692.3 million (2017: approximately HK$11,178.6 million). 87% (2017: 85%) of the Group's borrowings are long-term borrowings and over 99% (2017: 99%) of the Group's borrowings bear interest at floating rates.

(b) Perpetual capital instrument

On 27 November 2018, the Company issued perpetual capital instrument (the "Perpetual Capital Instrument") with an aggregate principal amount of RMB1,000,000,000 (equivalent to HK$1,190,476,000) for the purposes of repaying certain of the Group's indebtedness and the Group's general working capital. It was the first corporate green panda perpetual capital instrument issued in the PRC and the first perpetual capital instrument issued by the Group. In January 2019, the Company was awarded as one of the "Outstanding Fixed Income Product Issuers" by the Shenzhen Stock Exchange. Net proceeds after deducting issue expenses amounted to RMB997,000,000 (equivalent to HK$1,131,315,000). There is no maturity of the instrument and the payments of distribution can be deferred at the discretion of the Company subject to certain conditions. The Perpetual Capital Instrument is classified as equity instruments. No distribution was declared during the year.

(c) Update on the unutilised net proceeds raised from the open offer

On 11 September 2017, the Company completed an open offer (the "Open Offer") on the basis of one (1) offer share for every seven (7) existing ordinary shares of the Company held by the qualifying shareholders at the subscription price of HK$0.17 per offer share and a total of 7,820,619,687 offer shares were issued. The net proceeds received of HK$1,328,225,000 shall be utilised as to 50% for organic growth (i.e. self-development of photovoltaic power plant projects) and 50% for acquisitions (including the potential acquisitions of established project companies in relation to photovoltaic and wind power businesses) as disclosed in the Company's prospectus dated 21 August 2017.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.23 Liquidity and financial resources (Continued)

(c) Update on the unutilised net proceeds raised from the open offer (Continued)

As disclosed in the Company's annual report for the year ended 31 December 2017, as at 27 March 2018, save as the unutilised net proceeds of approximately HK$75.3 million to be utilised for the self-development of photovoltaic power plant projects in Anhui Province, the PRC, all the net proceeds were utilised as intended. During the year ended 31 December 2018 and as disclosed in the Company's 2018 interim report, these unutilised net proceeds were fully utilised as intended.

As majority of the funding derives from equity funds from shareholders in prior years, long-term borrowings and the Perpetual Capital Instrument, the Group recorded net current assets position of approximately HK$2,075.2 million (2017: approximately HK$2,884.0 million) as at 31 December 2018.

The Group obtains certain unutilised banking facilities to enable higher flexibility and stability on capital management. As at 31 December 2018, the Group had unutilised banking facilities of approximately HK$925.0 million (2017: approximately HK$926.0 million) in aggregate with terms ranging from repayable on demand to 15 years (2017: ranging from repayable on demand to 10 years).

The Group's net gearing ratio, which was calculated by dividing net debt (defined as bank and other borrowings and finance lease payables, net of cash and cash equivalents) by the sum of net debt and total equity, was 64% (2017: 59%) as at 31 December 2018. The increase in net gearing ratio was mainly due to the net effect of (i) the increase in bank and other borrowings and finance lease payables for the purpose of funding the development of the clean energy businesses; and (ii) the increase in total equity arising from the issue of the Perpetual Capital Instrument during the year.

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CHARGE ON THE GROUP'S ASSETS

The secured bank and other borrowings, finance lease payables and bills payables of the Group as at 31 December 2018 are secured by:

(i) pledges over certain of the Group's property, plant and equipment and operating concessions;

(ii) pledges over certain of the Group's trade receivables;

(iii) pledges over the Group's equity interests in certain subsidiaries;

(iv) guarantees given by the Company and/or its subsidiaries; and/or

(v) pledges over certain of the Group's bank balances.

Save as disclosed above, at 31 December 2018, the Group did not have any charges on the Group's assets.

CONTINGENT LIABILITIES

As at the end of the reporting period, the Group did not have any significant contingent liabilities (2017: Nil).

FOREIGN EXCHANGE EXPOSURE

Majority of the subsidiaries of the Company operate in the PRC with most of the transactions denominated and settled in RMB. Fluctuations of exchange rates would impact the Group's net asset value due to currency translation in the preparation of the Group's consolidated accounts. If RMB appreciates/depreciates against HK$, the Group would record a(n) increase/decrease in the Group's net asset value. During the year ended 31 December 2018, the Group has not used derivative financial instruments to hedge against its foreign currency risk.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Fluctuation in currency exchange rates

The Group primarily operates its businesses in the PRC and most of its transactions are mainly denominated in RMB. The value of RMB against HK$ and other currencies may fluctuate and is affected by, among others, changes in the economic conditions and policies. The conversion of RMB into foreign currencies, including HK$, has been based on rates as promulgated by the People's Bank of China. The Group monitors foreign exchange exposures and takes appropriate measures to mitigate and manage the risk on a timely and effective manner by, including but not limited to, raising debt financing denominated in RMB to match the currency of operating cash flows.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Liquidity risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due. During the year, the Group steadily expanded the clean energy businesses (i.e. the Photovoltaic Power Business, the Wind Power Business and the Clean Heat Supply Business), which require material funding in investment and development stages. In managing the liquidity risk, the Group, among others, (i) obtains long-term borrowings and issues perpetual capital instrument as detailed under the section headed "2.23 Liquidity and financial resources" in "Management Discussion and Analysis"; (ii) monitors and maintains an adequate level of cash and credit facilities; and (iii) timely monitors the settlements of receivables.

Policy risks

The Group's clean energy businesses are dependent on the relevant governmental support measures (including the preferential tax policies, subsidies and government grants, electricity generation dispatch priority, laws and regulations, etc.) for steady and healthy development. Although the Chinese government has been supportive to the growth of the clean energy businesses, it is possible that the existing governmental support measures will be modified. The Group will strictly cohere to the government measures and will closely monitor the policy planning to grasp the business opportunities and get understanding on the risks associated with the policy modifications in advance.

Other business risks

The risks and uncertainties on the Group's clean energy businesses, in particular the Photovoltaic Power Business and the Wind Power Business, also comprise (i) the risks on project performance; and (ii) grid curtailment risks. If any of these risks and uncertainties materialise, overall growth and profitability would be affected. In mitigating the risks on project performance, the Group places significant emphasis on, among others, (i) implementing effective investment due diligence, approval and review processes; (ii) monitoring and controlling the quality and performance of its assets and businesses; (iii) human capital and technical strengths; and (iv) relationships with customers and suppliers, in order to facilitate the positive development of these businesses. On the other hand, in mitigating the curtailment risks, the Group strategically focuses on developing the Photovoltaic Power Business and the Wind Power Business in regions which are well-developed with power transmission network and with stronger economy and electricity demand, and in general do not have curtailment issue.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed 2,466 employees (2017: 1,668 employees) with total staff cost of approximately HK$479.8 million incurred for the year ended 31 December 2018 (2017: approximately HK$268.3 million). The Group's remuneration packages are generally structured with reference to market terms and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

CORPORATE SOCIAL RESPONSIBILITY

Environmental policies and performance

The Group is committed to sustainable development of the environment, minimising the environmental impact of its operations by reinforcing environmental awareness and implementing measures for the responsible use of resources, energy saving and waste management. The Group is dedicated to environmental sustainability by strategically expanding into the Photovoltaic Power Business, the Wind Power Business and the Clean Heat Supply Business, which offer clean energy and contribute to the widespread use of renewable energy.

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CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

Compliance with relevant laws and regulations

During the year, as far as the Group is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

Relationship with stakeholders

The Group recognises that stakeholders including employees, shareholders and investors, customers, suppliers and contractors, government entities, industry partners and community partners are the key to corporate sustainability and is keen on developing long-term relationships with these stakeholders. Some examples on supporting and communicating with the stakeholders include:

(a) Employees: The Company places significant emphasis on human capital and strives to foster an environment in which the employees can develop to their fullest potential and can assist their personal and professional growth. The Company provides a fair and safe workplace, promotes diversity to our staff, and provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts on-going efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfilment in their positions;

(b) Shareholders and investors: Details of which are set out in the section headed "Investor Relations – Communication with shareholders" in the "Corporate Governance Report" of this annual report;

(c) Customers: The Group understands that it is important to maintain good relationship with customers and provide products in a way that satisfy their needs and requirements. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the products so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner; and

(d) Suppliers and contractors: The Group is also dedicated to develop good relationship with suppliers and contractors as long-term business partners to ensure stable supply of materials and timely delivery of construction works. We reinforce business partnerships with suppliers and contractors by on-going communication in a proactive and effective manner so as to ensure quality and timely delivery.

Environmental, social and governance report

Further details of the Group's commitment and strategies to sustainability and the performance in environmental contributions, employee relations, supply chain management, occupational health and safety and social investments of the core business of the Group for the year ended 31 December 2018 are set out in the Group's Environmental, Social and Governance Report for the year ended 31 December 2018, which will be published on the websites of the Company (www.bece.com.hk) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) by the end of July 2019.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

(a) Pursuant to an agreement entered into between the Company (as the seller) and Ms. Huang Li (as the purchaser) dated 10 January 2018, the Cigarette Packaging Business was disposed of by the Company to Ms. Huang Li for a consideration of HK$258,868,000. The disposal was completed on 17 January 2018. Further details of the disposal are set out in the Company's announcement dated 10 January 2018;

(b) On 18 April 2018, 天津富歡企業管理諮詢有限公司 (Tianjin Clean Energy Investment Company Limited*, "Tianjin Clean Energy") (as the purchaser) and an independent third party (as the vendor) (the "XS Target Companies' Vendor") entered into two equity transfer agreements, pursuant to which Tianjin Clean Energy agreed to acquire the entire equity interests in 響水恆能太陽能發電有限公司 (Xiangshui Hengneng Photovoltaic Power Co. Ltd.*, "XSHN") and 響水永能太陽能發電有限公司 (Xiangshui Yongneng Photovoltaic Power Co. Ltd.*, "XSYN") from the XS Target Companies' Vendor for an aggregate consideration of RMB457,679,000 (equivalent to HK$544,856,000). In addition, pursuant to two debt settlement agreements entered into between Tianjin Clean Energy, the XS Target Companies' Vendor and XSHN and XSYN (as appropriate) dated 18 April 2018, Tianjin Clean Energy shall repay the liabilities for and on behalf of XSHN and XSYN in an aggregate amount of RMB893,056,000 (equivalent to HK$1,063,162,000). XSHN and XSYN hold a 100MW photovoltaic power plant and a 20MW photovoltaic power plant in 鹽城市 (Yancheng City*), Jiangsu Province, the PRC, respectively. The equity transfers were completed in May 2018 and XSHN and XSYN became indirect wholly-owned subsidiaries of the Company. Further details are set out in the Company's announcement dated 18 April 2018;

(c) On 12 July 2018, Tianjin Clean Energy (as the purchaser), an independent third party (as the vendor) (the "NJJH Vendor") and 南京競弘新能源有限公司 (Nanjing Jinghong New Energy Co. Ltd.*, "NJJH") entered into an equity transfer agreement, pursuant to which Tianjin Clean Energy agreed to acquire the entire equity interests in NJJH and 普安縣中弘新能源有限公司 (Puan County Zhonghong New Energy Co. Ltd.*, "PAZH") from the NJJH Vendor for a consideration of RMB192,897,000 (equivalent to HK$229,639,000). In addition, pursuant to a debt settlement agreement entered into between Tianjin Clean Energy, the NJJH Vendor, NJJH and PAZH dated 12 July 2018, Tianjin Clean Energy shall repay the liabilities for and on behalf of NJJH and PAZH in an aggregate amount of RMB174,063,000 (equivalent to HK$207,218,000). PAZH is wholly-owned by NJJH and holds a 50MW photovoltaic power plant in 普安縣 (Puan County*), Guizhou Province, the PRC. The equity transfers were completed in August 2018 and NJJH and PAZH became indirect wholly-owned subsidiaries of the Company. Further details are set out in the Company's announcement dated 12 July 2018; and

(d) On 5 December 2018, the Company, 北京北控光伏科技發展有限公司 (Beijing Enterprises New Energy Company Limited*), Tianjin Clean Energy (as the vendor), the YSJA Purchasers and YSJA entered into an agreement, pursuant to which Tianjin Clean Energy agreed to dispose of the entire equity interest in YSJA to the YSJA Purchasers for a consideration of RMB609,148,000 (equivalent to HK$725,176,000). YSJA holds a 60MW photovoltaic power plant in Fuyang City（阜陽市）, Anhui Province, the PRC. The equity transfer was completed in December 2018 and YSJA became a joint venture of the Group. Further details of the disposal are set out in the Company's announcement dated 5 December 2018.

Save as disclosed above, there were no significant investments, material acquisition and disposal of subsidiaries and associated companies by the Group for the year ended 31 December 2018.

* *For identification purposes only*

Management discussion and analysis of the results of the Target Company for the year ended 31 December 2019

Management Discussion and Analysis

31 December 2019

1. BUSINESS REVIEW

During the year ended 31 December 2019, the Group was principally engaged in the investment, development, construction, operation and management of photovoltaic power businesses (the "Photovoltaic Power Business"), wind power businesses (the "Wind Power Business") and clean heat supply businesses (the "Clean Heat Supply Business") in the PRC.

Financial highlights:

	2019 **HK$'000**	2018 HK$'000	Change %
Revenue	**6,335,620**	6,980,270	(9)
Gross profit	**2,896,755**	2,922,248	(1)
Gross profit ratio (in percentage)	**45.7**	41.9	3.8
Profit for the year	**842,086**	1,377,956	(39)
Profit attributable to the equity holders of the Company	**682,864**	1,268,645	(46)
Basic EPS (in HK cents)	**0.96**	1.99	(52)
EBITDA	**3,281,219**	3,475,657	(6)
Total assets	**52,192,282**	43,408,150	20
Equity	**11,005,769**	10,875,407	1
Cash and cash equivalents	**3,698,835**	2,768,362	34

Since 2018, the Group has been focusing on the development of businesses with higher gross profit ratio and stronger sustainability (such as sales of electricity and clean heat supply), improving the quality of existing projects, implementing cost reduction and efficiency enhancement and reducing the proportion of its construction services business which has a lower gross profit ratio. The Group recorded revenue of HK$6,335.6 million, representing a decrease of 9% as compared to the corresponding period of last year, while gross profit margin increased from 41.9% to 45.7% as compared to the corresponding period of last year, and total gross profit was comparable to the corresponding period of last year.

Profit for the year of the Group was approximately HK$842.1 million (2018: approximately HK$1,378.0 million), representing a decrease of approximately 39% as compared to the corresponding period of last year. Profit attributable to the equity holders of the Company was HK$682.9 million, representing a decrease of 46% as compared to the corresponding period of last year. Such decrease was primarily attributable to the combined effect of (i) the increase in finance costs attributable to the increases in average total balances of bank and other borrowings and lease liabilities under finance lease arrangements/finance lease payables for the year as compared to the corresponding period of last year; (ii) one-off impairments of property, plant and equipment and investments in associates; and (iii) the decrease in administrative expenses as a result of implementing cost reduction and efficiency enhancement by the Group during the year.

Further details of the discussion of financial performance are set out in the section headed "2. Financial Performance" in "Management Discussion and Analysis". Analysis of the business performance is set out below.

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations

During the year, the Group steadily expanded its operating capacity through the investment, development, construction, operation and management of power plant projects, and the aggregate revenue in respect of the sale of electricity and the provision of entrusted management services amounted to approximately HK$3,370.9 million (2018: approximately HK$3,040.2 million), representing an increase of 11% as compared to the corresponding period of last year. The aggregate electricity sales volume in respect of the Group's sale of electricity during the year was approximately 3.70 million megawatt-hour ("MWh") (2018: approximately 2.89 million MWh), representing an increase of 28% as compared to the corresponding period of last year.

Pursuant to the "Several Opinions on Facilitating the Healthy Development of Non-hydro Renewable Power Generation*" (《關於促進非水可再生能源發電健康發展的若干意見》) and "Administrative Measures for the Additional Subsidies for Renewable Energy Electricity Prices*" (《可再生能源電價附加補助資金管理辦法》) jointly announced by the Ministry of Finance, the National Development and Reform Commission of the PRC (the "NDRC") and the National Energy Administration in January 2020, and the "Notice on Relevant Review Work on the Projects List of Renewable Energy Power Generation Subsidies*" (《關於開展可再生能源發電補貼項目清單審核有關工作的通知》) announced by the Ministry of Finance in March 2020, the conditions and application procedures for entering the list of this batch of national financial subsidy for the renewable energy power generation projects were clarified. Based on the Group's understanding and preliminary estimation, the capacity of the Group that may meet the application requirements of the subsidy list is over 2,000 megawatt ("MW"). The promulgation shows that the government is doing its best to solve the problem of arrears in subsidies for renewable energy power generation, which is beneficial to the betterment of the Group's cash flow. The Group will closely follow up and implement this batch project inventory declaration and national subsidies related work, and prepare for the declaration of the next batch of list projects in advance, will proactively promote the implementation of relevant strategies to improve the receipt of national subsidies.

1.1.1 Photovoltaic Power Plant Projects

(a) Scale and performance of the centralised photovoltaic power plant projects

During the year, the Group's centralised photovoltaic power business developed steadily through acquisition of businesses from independent third parties and self development and construction of photovoltaic power plants. The Group recorded revenue of approximately HK$2,494.9 million (2018: approximately HK$2,346.9 million) from the sale of electricity from the Group's centralised photovoltaic power plants, representing 39% (2018: 34%) of the Group's total revenue during the year.

Centralised Photovoltaic Power Plant, Qixian Miaokou, Henan Province

Centralised Photovoltaic Power Plant, Jinzhai County, Anhui Province

Management Discussion and Analysis

31 December 2019

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.1 Photovoltaic Power Plant Projects (Continued)

(a) Scale and performance of the centralised photovoltaic power plant projects (Continued)

As at 31 December 2019, 52 (2018: 51) centralised photovoltaic power plants covering 12 provinces, 1 municipality and 2 autonomous regions in the PRC and 1 (2018: 1) centralised photovoltaic power plant in Whyalla, Southern Australia, Australia were held by the Group and in operation, and the aggregate on-grid capacity of these photovoltaic power plants reached 2,256MW (2018: 2,074MW), which is analysed below:

Location	Photovoltaic resource area	2019 Number of Plants	2019 Approximate total on-grid capacity (MW)	2019 Approximate electricity sales volume (note 1) (MWh)	2018 Number of Plants	2018 Approximate total on-grid capacity (MW)	2018 Approximate electricity sales volume (note 1) (MWh)
PRC – Subsidiaries:							
Hebei Province	II/III	**16**	**469**	**599,942**	16	409	469,416
Henan Province	III	**3**	**264**	**337,449**	3	264	343,367
Shandong Province	III	**5**	**248**	**328,022**	5	247	303,513
Jiangsu Province	III	**3**	**220**	**204,876**	3	129	106,171
Guizhou Province	III	**4**	**211**	**223,659**	4	211	173,750
Anhui Province	III	**6**	**191**	**214,451**	6	191	191,760
Shaanxi Province	II	**2**	**160**	**245,573**	2	160	235,501
Jiangxi Province	III	**3**	**125**	**133,046**	3	125	136,890
Ningxia Hui Autonomous Region	I	**1**	**100**	**143,417**	1	100	136,138
Hubei Province	III	**2**	**43**	**45,214**	2	43	45,753
Jilin Province	II	**1**	**30**	**49,629**	1	30	47,693
Tibet Autonomous Region	III	**1**	**30**	**41,184**	1	30	26,280
Tianjin Municipality	II	**1**	**30**	**46,628**	–	–	–
Yunnan Province	II	**1**	**22**	**32,962**	1	22	32,639
Shanxi Province	III	**1**	**20**	**28,359**	1	20	29,557
		50	**2,163**	**2,674,411**	49	1,981	2,278,428
PRC – Joint ventures:							
Hubei Province	III	**1**	**27**	**26,542**	1	27	29,299
Anhui Province	III	**1**	**60**	**78,719**	1	60	78,139
		2	**87**	**105,261**	2	87	107,438
PRC – Sub-total		**52**	**2,250**	**2,779,672**	51	2,068	2,385,866
Overseas – Subsidiary:							
Whyalla, Southern Australia, Australia	N/A	**1**	**6**	**9,475**	1	6	4,342
Total		**53**	**2,256**	**2,789,147**	52	2,074	2,390,208

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.1 Photovoltaic Power Plant Projects (Continued)

(a) Scale and performance of the centralised photovoltaic power plant projects (Continued)

Most of the Group's projects in the PRC were situated in photovoltaic resource areas II and III as promulgated by the NDRC, locations considered by the management to be favourable for the development of the Group's Photovoltaic Power Business. Set out below the projects analysis by photovoltaic resource areas:

Photovoltaic resource area	2019 Number of plants	2019 Approximate total on-grid capacity (MW)	2019 Approximate electricity sales volume (note 1) (MWh)	2018 Number of Plants	2018 Approximate total on-grid capacity (MW)	2018 Approximate electricity sales volume (note 1) (MWh)
PRC – Subsidiaries:						
I	**1**	**100**	**143,417**	1	100	136,138
II	**12**	**448**	**676,608**	11	397	535,065
III	**37**	**1,615**	**1,854,386**	37	1,484	1,607,225
	50	**2,163**	**2,674,411**	49	1,981	2,278,428
PRC – Joint ventures:						
III	**2**	**87**	**105,261**	2	87	107,438
Total	**52**	**2,250**	**2,779,672**	51	2,068	2,385,866

Note 1: It represented the approximate electricity sales volume of the projects from the later of (i) the dates of acquisition by the Group; (ii) the dates of commencement of operation; and (iii) the beginning of the respective reporting periods, to the end of the respective reporting periods. Therefore, the above electricity sales volume does not reflect a full year performance of these operations.

Note 2: During the year ended 31 December 2019, the average unit selling price (excluding value-added tax) per kilowatt-hour of the above projects located in the PRC was approximately RMB0.83.

(b) Scale of the centralised photovoltaic power plant projects registered in the Subsidy Catalogues

As at 31 December 2019, the Group's aggregate installed capacity of the photovoltaic power plants registered into the Renewable Energy Tariff Subsidy Catalogues (the "Subsidy Catalogues") reached approximately 434MW. Among which, an aggregate installed capacity of 407MW was held by the Group's subsidiaries and an installed capacity of 27MW was held by a joint venture of the Group. The Group will continue its effort on registering the remaining photovoltaic power plant projects into the Subsidy Catalogues once upcoming Subsidy Catalogues are available for application.

Management Discussion and Analysis
31 December 2019

1. BUSINESS REVIEW (CONTINUED)
1.1 Sale of Electricity and Entrusted Operations (Continued)
1.1.1 Photovoltaic Power Plant Projects (Continued)

(c) Key performance data of the centralised photovoltaic power plant projects held by the Group and in operation on or before the beginning of the reporting period

	2019	2018	Changes
Weighted average curtailment ratio (%)	**1.69**	2.76	(1.07)
Weighted average utilisation hours (hours)	**1,295**	1,278	17

During the year ended 31 December 2019, the national average curtailment ratio of photovoltaic power in the PRC was 2% and national average utilisation hours of photovoltaic power in the PRC were 1,169 hours. The Group's centralised photovoltaic power plant projects are mainly located in photovoltaic resource areas II and III as promulgated by the NDRC and therefore a relatively low weighted average curtailment ratio was achieved. The further improvement of weighted average curtailment ratio during the year as compared to the corresponding period of last year was mainly attributable to the improvement of curtailment ratio of the projects located in Shaanxi Province and the Tibet Autonomous Region.

(d) Scale and performance of the distributed photovoltaic power plant projects

In respect of the distributed photovoltaic power business, as at 31 December 2019, the total installed capacity of the distributed photovoltaic power plants held and/or managed by the Group and in operation achieved over 600MW, mainly located in resource area III as promulgated by the NDRC such as Henan Province, Anhui Province, Shandong Province, Jiangsu Province and Hebei Province, which included the distributed photovoltaic power stations constructed by the Group in certain water plants of Beijing Enterprises Water Group Limited of which the Group sold electricity to respective water plants. Revenue from the sale of electricity from the Group's distributed photovoltaic power plants reached approximately HK$390.0 million during the year (2018: approximately HK$289.6 million).

Distributed Photovoltaic Power Station in a water plant of BEWG, Dongguan, Guangdong Province

(e) Entrusted management services

In addition to the above-mentioned sale of electricity from the Group's photovoltaic power plants, the Group provided entrusted management services for photovoltaic power plant projects in the PRC and revenue of approximately HK$168.6 million (2018: approximately HK$185.6 million) was recognised during the year.

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.2 Wind Power Plant Projects

Wind Power Plant, Alashan, The Inner Mongolia Autonomous Region

Wind Power Plant, Binzhou, Shandong Province

The improvements of technology, investment cost and curtailment issues enhance the overall competitiveness of the wind power to the traditional power sources, giving rise to new business opportunities and healthier market environment in the wind power industry. With the Group's expertise on, among others, investing, developing and managing wind and other power businesses, the Group is optimistic on expanding its Wind Power Business to contribute its effort in building up a green future of the PRC.

(a) Scale and performance of the wind power plant projects

During the year, the Group's Wind Power Business expanded steadily. The Group recorded revenue of approximately HK$238.4 million (2018: approximately HK$113.2 million) from the sale of electricity from the Group's wind power plants.

As at 31 December 2019, through self-development, joint development, acquisitions, etc., the Group's aggregate capacity of the grid-connected, under-construction and approved-to-construct wind power projects reached over 1,400MW. These projects mainly located in Hebei Province, Henan Province, Shandong Province and the Inner Mongolia Autonomous Region and mainly situated in resource area IV as promulgated by the NDRC. Among which, 7 projects (2018: 4 projects) with an aggregate on-grid capacity of 190MW (2018: 117MW) were held by the Group and in operation as at 31 December 2019, which is analysed below:

Location	Wind resource area	2019 Number of plants	2019 Approximate total on-grid capacity (MW)	2019 Approximate electricity sales volume (note 1) (MWh)	2018 Number of Plants	2018 Approximate total on-grid capacity (MW)	2018 Approximate electricity sales volume (note 1) (MWh)
PRC – Subsidiaries:							
The Inner Mongolia Autonomous Region	I	**4**	**119**	**333,423**	3	69	87,630
Shandong Province	IV	**1**	**48**	**105,866**	1	48	109,928
Henan Province	IV	**2**	**23**	**19,830**	–	–	–
Total		**7**	**190**	**459,119**	4	117	197,558

Note 1: It represented the approximate electricity sales volume of the projects from the later of (i) the dates of acquisition by the Group; (ii) the dates of commencement of operation; and (iii) the beginning of the respective reporting periods, to the end of the respective reporting periods. Therefore, the above electricity sales volume does not reflect a full year performance of these operations.

(b) Scale of the wind power plant projects registered in the Subsidy Catalogues

As at 31 December 2019, the Group's aggregate installed capacity of the wind power plants registered into the Subsidy Catalogues reached 88MW. The Group will continue its effort on registering the remaining wind power plant projects into the Subsidy Catalogues once upcoming Subsidy Catalogues are available for application.

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.2 Wind Power Plant Projects (Continued)

(c) Key performance data of the wind power plant projects held by the Group and in operation on or before the beginning of the reporting period

	2019	2018	Changes
Weighted average curtailment ratio (%)	**0.05**	0.10	(0.05)
Weighted average utilisation hours (hours)	**2,810**	2,308	502

During the year, the national average curtailment ratio of wind power in the PRC was 4% and the national wind power average utilisation hours in the PRC was 2,082 hours. The Group's wind power plant projects are mainly located in regions with no curtailment issues in general. The improvement of weighted average utilisation hours during the year as compared to the corresponding period of last year was mainly attributable to the high level of utilisation hours for projects in the Inner Mongolia Autonomous Region.

(d) Entrusted management services

In addition to the above-mentioned sale of electricity from the Group's wind power plants, the Group provided entrusted management services for wind power plant projects in the PRC and revenue of approximately HK$79.0 million (2018: HK$104.9 million) was recognised during the year.

1.2 Engineering, Procurement and Construction Services, and Technical Consultancy Services

The Group is engaged in the provision of engineering, procurement and construction services for clean energy businesses including photovoltaic and wind power-related projects and clean heat supply projects in the PRC, and has couples of qualification and extensive experience in the design, engineering and construction of power-related projects. Since 2018, the Group has been focusing on the development of businesses with higher gross profit ratio and stronger sustainability (such as sales of electricity and clean heat supply), improving the quality of existing projects, implementing cost reduction and efficiency enhancement and reducing the proportion of its construction services business which has a lower gross profit ratio. Revenue of approximately HK$1,759.4 million (2018: approximately HK$3,085.4 million) in aggregate arising from provision of engineering, procurement and construction services was recognised during the year, representing 29% (2018: 44%) of the Group's total revenue during the year and a decrease of 40% as compared to the corresponding period of last year.

In addition to the above, certain photovoltaic power plant and clean heat supply projects on a build-operate-transfer basis (the "BOT Basis") were under construction during the year. With reference to HK (IFRIC) Interpretation 12 *Service Concession Arrangements*, construction revenue of approximately HK$189.5 million (2018: approximately HK$246.1 million) was recognised during the year with reference to the fair value of construction services delivered during the construction phase. The fair value of such services is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the inception date of the relevant service concession agreements. The decrease in construction revenue on a BOT Basis was attributable to the completion of the construction of a centralised photovoltaic project on a BOT Basis located in Shandong Province, the PRC during the year.

In respect of the technical consultancy services, the Group successfully marketed the aforementioned qualification and experience to other industry participants. Revenue of approximately HK$221.1 million (2018: approximately HK$300.3 million) was recognised during the year.

1. BUSINESS REVIEW (CONTINUED)

1.3 Provision of Clean Heat Supply Services

Clean heat supply represents the production of low emission heat through the utilisation of clean energies such as natural gas, electricity, geothermal energy, biomass energy, photovoltaic power, industrial excess heat energy, clean coal (ultra-low emission) energy, river water source etc., and the supply of such heat to end users. With various supportive government policies issued including but not limited to the issuance of "the Notice on the Winter Clean Heat Plan (2017 to 2021) of the Northern China*"（《關於印發北方地區冬季清潔取暖規劃(2017-2021年）的通知》）jointly by ten government authorities in December 2017 and the "Notice on the Budget for Air Pollution Prevention and Control in 2019*"（《關於下達2019年度大氣污染防治資金預算的通知》）by the Ministry of Finance in June 2019, the Clean Heat Supply Business shall have a favourable business prospects.

As at 31 December 2019, through development and business acquisition, 17 projects in operation with an aggregate actual clean heat supply area of reached 27 million square meters locating in Henan, Hebei, Shanxi, Shaanxi, the Ningxia Hui Autonomous Region, Liaoning, Shandong, Jiangsu and other provinces were held and/or managed by the Group. Revenue of approximately HK$794.7 million (2018: approximately HK$308.3 million) arising from the provision of clean heat supply services was recognised by the Group during the year, representing an increase of approximately 158% as compared to the corresponding period of last year.

Clean coal consumption and power plant excess heat energy centralised heat supply project in Yinchuan City, The Ningxia Hui Autonomous Region

1.4 Other Clean Energy Businesses

The Group has been exploring other clean energy businesses such as multi-energy complement, hydropower, energy storage, distribution and sales of electricity and other business lines, and exploring international opportunities for strategic development and diversification, with an aim to become a leading integrated clean energy service provider.

1.4.1 Hydropower Business

The Group aggressively explored other clean energy segments, and expanded into the hydropower industry by capitalising on the opportunity to develop Qinghai Ma'er block hydropower generation project. Hydropower generation enjoys a number of advantages which other clean energy such as photovoltaic power generation and wind power generation do not possess, such as more utilisation hours, stronger stability, adjustable peaks and better cash flow, which makes it a grid-friendly power source. As at 31 December 2019, the Group had a reserve of hydropower projects (including pumped storage) of more than 6 gigawatt. As a new strategic business of the Group, the hydropower business is coordinated with other segments of the Group. Relying on hydropower, the Group may establish energy bases which integrate the storage and transmission of wind power, photovoltaic power and hydropower, and carry out multiple operations such as tourism and breeding, which will deliver greater scale advantages and operating benefits. It is integral to the development of the Group's clean energy businesses, and will contribute stable income and optimise the Group's clean energy power station asset portfolio in the future.

During the year, the Group targeted to develop the hydropower business by way of acquisition. Further details of the acquisition are set out in note (a) under the section headed "Significant investments, material acquisition and disposal of subsidiaries and associated companies".

Management Discussion and Analysis

31 December 2019

1. BUSINESS REVIEW (CONTINUED)

1.4 Other Clean Energy Businesses (Continued)

1.4.2 Energy Storage Business

Energy storage is an important component and a key supporting technology for smart grid, energy systems with high proportion level of renewable energy and "internet plus" smart energy, which offers peak shaving, frequency modulation, back-up and demand-supply response support and other services for the grid operation, and is an important mean to enhance the flexibility, cost-effectiveness and safety of the traditional power system. At the same time, energy storage can significantly enhance the consumption level of renewable energy such as photovoltaic and wind power and support distributed power and micro-grid, and is a key technology to facilitate the clean energy power replacement. Also, energy storage can promote multi-energy complement and the opening and sharing, and the trading flexibility of energy production and consumption, and is a core foundation for constructing energy internet, advancing power system reform and facilitating the development of new energy business models, and there is a broad development prospect.

The Group paid persistent effort on energy storage technology and development, and its performance is consistently recognised by the industry. Further to the awards received in 2018 as disclosed in the Company's annual report for the year ended 31 December 2018, the Group received the below awards during the year:

Organisers	Events	Awards
The committee of China International Energy Storage Conference* and China Energy Storage Web*（中國國際儲能大會組委會及中國儲能網）	China International Energy Storage Conference*（中國國際儲能大會）	2019 China Energy Storage Industry Best Integrated Energy Service Providers Award* (2019年度中國儲能產業最佳綜合能源服務商獎） 2019 China Energy Storage Industry Best Design Institutions Award* (2019年度中國儲能產業最佳設計院獎） 2019 China Energy Storage Industry Most Influential Enterprises Award* (2019年度中國儲能產業最具影響力企業獎）
The committee of Energy Storage International Conference*（儲能國際峰會組委會）	2019 Energy Storage International Conference and Expo*（儲能國際峰會暨展覽會2019)	Top 10 Energy Storage Project Operators of 2019* (2019年度中國十大儲能項目運營商）
International Energy Storage Alliance* and China Energy Storage Alliance*（國際儲能技術與產業聯盟及中關村儲能產業技術聯盟）	The 3rd International Energy Storage Innovation Competition*（第三屆國際儲能創新大賽）	2019 Energy Storage Young Enterprise Award* (2019年度儲能新銳企業獎）

2. FINANCIAL PERFORMANCE

2.1 Revenue and gross profit margin

The Group recorded revenue of approximately HK$6,335.6 million (2018: approximately HK$6,980.3 million) during the year ended 31 December 2019, representing a decrease of 9% as compared to the corresponding period of last year. Since 2018, the Group has been focusing on the development of businesses with higher gross profit ratio and stronger sustainability (such as sales of electricity and clean heat supply), improving the quality of existing projects and reducing the focus on construction services business which has a lower gross profit ratio. Accordingly, (i) revenue from the sale of electricity and entrusted management services reached approximately HK$3,370.9 million (2018: approximately HK$3,040.2 million) in aggregate, representing an increase of 11% as compared to the corresponding period of last year; and (ii) construction services revenue was approximately HK$1,948.9 million (2018: approximately HK$3,331.5 million), representing a decrease of 42% as compared to the corresponding period of last year.

The gross profit performance by each business nature is set out below:

	2019			2018		
	Revenue (HK$ million)	**Gross profit ratio (%)**	**Gross profit (HK$ million)**	Revenue (HK$ million)	Gross profit ratio (%)	Gross profit (HK$ million)
Sale of electricity						
Photovoltaic Power Business	**2,884.9**	**66.2**	**1,910.9**	2,636.5	66.3	1,747.7
Wind Power Business	**238.4**	**66.8**	**159.2**	113.2	61.0	69.1
Construction services	**1,948.9**	**13.8**	**269.3**	3,331.5	15.0	500.9
Technical consultancy services	**221.1**	**70.7**	**156.3**	300.3	86.6	260.0
Entrusted operations	**247.6**	**81.7**	**202.2**	290.5	88.6	257.4
Provision of clean heat supply services	**794.7**	**25.0**	**198.8**	308.3	28.3	87.1
Total	**6,335.6**	**45.7**	**2,896.7**	6,980.3	41.9	2,922.2

Analysis of the above businesses are set out in the section headed "1. Business Review" in "Management Discussion and Analysis".

Gross profit for the sale of electricity increased from approximately HK$1,816.8 million for the year ended 31 December 2018 to approximately HK$2,070.1 million during the year ended 31 December 2019, representing 71% (2018: 62%) to the total gross profit of the Group. The increase in contribution of sale of electricity to the Group's total gross profit was mainly attributable to the steady development of the Group's operating capacity of the photovoltaic and wind power plant projects. On the other hand, contribution of construction services to the Group's total gross profit was 9% (2018: 17%) during the year. As a result of the change in revenue structure, overall gross profit percentage increased from 41.9% during the year ended 31 December 2018 to 45.7% during the year ended 31 December 2019.

Management Discussion and Analysis

31 December 2019

2. FINANCIAL PERFORMANCE (CONTINUED)

2.2 Other income and gains, net

The Group's other income and gains, net achieved approximately HK$278.3 million (2018: approximately HK$334.1 million) during the year, which mainly comprised (i) interest income of approximately HK$113.0 million (2018: approximately HK$89.9 million); (ii) government grants of approximately HK$135.6 million (2018: approximately HK$148.3 million); and (iii) gains on bargain purchase of subsidiaries of approximately HK$9.4 million (2018: HK$22.7 million).

2.3 Administrative expenses

The decrease in administrative expenses to approximately HK$557.6 million (2018: approximately HK$664.3 million) was mainly attributable to decreases in rental expenses, business travelling expenses and staff costs as a result of implementing cost reduction and efficiency enhancement by the Group.

2.4 Other operating expenses, net

It mainly represented (i) loss allowances of financial assets of approximately HK$107.2 million in aggregate, including loss allowance of (a) contract assets and trade and bills receivables of approximately HK$27.2 million (2018: approximately HK$25.7 million); and (b) deposits and other receivables of approximately HK$80.0 million (2018: approximately HK$10.1 million) were recognised for the year ended 31 December 2019; (ii) one-off impairments of property, plant and equipment and investments in associates of approximately HK$93.7 million and HK$51.9 million, respectively; and (iii) provisions of litigation of approximately HK$25.3 million in respect of the outstanding legal proceedings based on advices obtained from the legal counsel.

2.5 Finance costs

The increase in finance costs of the Group by approximately HK$235.0 million to approximately HK$1,210.2 million (2018: approximately HK$975.2 million) was mainly attributable to the increase in the average balances of bank and other borrowings and lease liabilities under finance lease arrangements/finance lease payables of the Group as compared to the corresponding period of last year.

2.6 Income tax expense

The Group conducted its principal activities in the PRC and the relevant standard corporate income tax rate was 25%. The Group's effective tax rate was lower than the standard corporate income tax rate in the PRC as certain of the Group's operating subsidiaries enjoyed tax concession benefits during the corresponding years.

2.7 Property, plant and equipment

Property, plant and equipment mainly represented the carrying amounts of clean energy projects held by the Group and in operation or under construction, and the increase was mainly attributable to (i) the acquisition and development of clean energy projects; and (ii) the adoption of HKFRS 16 whereby prepaid land lease payments and prepayments made for leases are reclassified under this category during the year.

2.8 Investment properties

The Group's investment properties mainly represented the fair value of an office floor in Hong Kong and were leased to an independent third party during the year.

2.9 Prepaid land lease payments

The decrease was attributable to the adoption of HKFRS 16 as detailed in note 2.2 to the financial statements.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.10 Goodwill

It was attributable to the acquisition of subsidiaries since 2016.

2.11 Operating concessions and operating rights

Operating concessions represented the rights to operate certain photovoltaic power plant and clean heat supply projects under the BOT Basis, and operating rights represented the operating rights arising from the acquisition of clean energy businesses with reference to HKFRS 3 (Revised) *Business Combinations*. The increase in operating concessions was mainly attributable to the construction of certain clean energy projects on a BOT Basis, and the decrease in operating rights was mainly attributable to the amortisation provided for during the year.

2.12 Investments in joint ventures

It mainly represented the capital contributions made by the Group to the limited partnerships established in the PRC and joint ventures established for conducting the clean energy businesses and the decrease was mainly attributable to the share of loss of joint ventures during the year.

2.13 Investments in associates

It represented (i) the Group's investment in 四川金宇汽車城（集團）股份有限公司 (Sichuan Jinyu Automobile City (Group) Co., Ltd.*) ("Sichuan Jinyu", a company established in the PRC and shares of which are listed on the Shenzhen Stock Exchange (stock code: SZ.000803)), an associate owned as to 23.82% by the Group and was principally engaged in the provision of energy performance contracting service; and (ii) the Group's investment in 北控城投控股集團有限公司 (Beijing Enterprises City Investment Holdings Group Co., Ltd*), an associate own as to 15% by the Group and was principally engaged in the investment, development and operation of infrastructural and properties-related businesses in the PRC.

2.14 Other non-current assets

It represented materials and equipment sold and delivered to independent third parties for the development of photovoltaic and wind power plant projects.

2.15 Contract assets

Contract assets as at 31 December 2019 of approximately HK$5,376.2 million (2018: approximately HK$4,501.7 million) represented (i) gross receivables of approximately HK$1,482.9 million (2018: approximately HK$2,033.8 million) mainly arising from the provision of engineering, procurement and construction services for clean energy projects; (ii) gross receivables of approximately HK$3,923.6 million (2018: approximately HK$2,491.8 million) in relation to the central government renewable energy subsidy for photovoltaic and wind power plant projects that will be billed and settled upon registering into the Subsidy Catalogues; and (iii) loss allowances of contract assets of approximately HK$30.3 million (2018: approximately HK$23.9 million). The increase in contract assets was mainly attributable to the increase in gross receivables of the central government renewable energy subsidy arising from the sale of electricity during the year.

Management Discussion and Analysis

31 December 2019

2. FINANCIAL PERFORMANCE (CONTINUED)

2.16 Trade and bills receivables

Trade and bills receivables of approximately HK$4,203.5 million (2018: approximately HK$3,289.6 million) as at 31 December 2019 were mainly comprised (i) gross receivables from the sale of electricity of the Photovoltaic Power Business and the Wind Power Business of approximately HK$1,260.7 million (2018: approximately HK$941.1 million); (ii) gross receivables from the provision of engineering, procurement and construction services for clean energy businesses of approximately HK$2,307.6 million (2018: approximately HK$2,087.2 million); and (iii) loss allowances of trade and bills receivables of approximately HK$39.4 million (2018: approximately HK$19.3 million).

As at 31 December 2019, gross trade receivables for the sale of electricity of the Photovoltaic Power Business and the Wind Power Business mainly comprised (i) receivables of approximately HK$345.3 million (2018: approximately HK$149.9 million) from the sale of electricity mainly to State Grid Corporation, a state-owned enterprise principally engaged in the development and operation of nationwide power network; and (ii) receivables of approximately HK$805.6 million (2018: approximately HK$711.8 million) in relation to the central government renewable energy subsidy for photovoltaic and wind power plant projects that have been registered into the Subsidy Catalogues.

2.17 Prepayments, deposits and other receivables, and other tax recoverables

The increase in prepayments, deposits and other receivables and other tax recoverables by approximately HK$2,380.7 million in aggregate (non-current portion and current portion increased by approximately HK$1,602.8 million and approximately HK$777.9 million in aggregate respectively) to approximately HK$10,341.7 million (2018: approximately HK$7,961.0 million) in aggregate was mainly attributable to the increases in prepayments, deposits and other receivables for the acquisition and development of clean energy projects and input value-added-tax recoverables arising from the acquisition and development of photovoltaic and wind power plants.

2.18 Cash and cash equivalents

The increase in cash and cash equivalents by approximately HK$930.4 million to approximately HK$3,698.8 million (2018: approximately HK$2,768.4 million) was mainly attributable to net effect of (i) net increase in the corporate bond, bank and other borrowings and lease liabilities under finance lease arrangements/finance lease payables; (ii) cash outflow on developing, acquiring and operating clean energy projects; and (iii) receipts of trade and bills receivables during the year.

2.19 Trade and bills payables

Trade and bills payables of approximately HK$5,563.5 million (2018: approximately HK$4,375.8 million) mainly represented trade and bills payables in relation to the provision of engineering, procurement and construction services for the development of clean energy projects.

2.20 Other payables and accruals

Other payables and accruals of approximately HK$5,107.6 million (2018: approximately HK$5,101.1 million) increased by approximately HK$6.5 million, which was mainly due to the net effect of (i) increase in construction and equipment payables to contractors and suppliers in relation to the projects held by the Group; and (ii) settlement of the construction and equipment payable of projects acquired or under development by the Group during the year.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.21 Other non-current liabilities

Other non-current liabilities comprised (a) deferred income of approximately HK$741.1 million (2018: approximately HK$102.0 million) arising from the materials and equipment sold and delivered to independent third parties for the development of photovoltaic and wind power plant projects; and (b) a financial liability of approximately HK$671.1 million (2018: Nil) arising from an option granted to the Ping An Entities (as hereinafter defined under the section headed "2.24 Liquidity and financial resources – (d) Capital contribution" in "Management Discussion and Analysis". Further details of the option are set out in the Company's announcement dated 27 December 2019.

2.22 Interest-bearing bank and other borrowings, corporate bond and lease liabilities under finance lease arrangements/finance lease payables

Interest-bearing bank and other borrowings, corporate bond and lease liabilities under finance lease arrangements/finance lease payables of approximately HK$27,599.8 million (2018: approximately HK$22,242.5 million) in aggregate increased by approximately HK$5,357.3 million in aggregate (non-current portion and current portion increased by approximately HK$2,480.0 million in aggregate and approximately HK$2,877.3 million in aggregate respectively), which was mainly attributable to the drawdown of bank and other borrowings, corporate bond and lease liabilities under finance lease arrangements/finance lease payables for the development of the clean energy businesses.

2.23 Capital expenditures

During the year ended 31 December 2019, the Group's total capital expenditures amounted to approximately HK$3,928.3 million (2018: approximately HK$8,040.3 million), comprising (i) development of photovoltaic and wind power plant projects, clean heat supply projects, and other property, plant and equipment of approximately HK$3,274.0 million (2018: approximately HK$3,311.4 million) in aggregate; (ii) no addition to prepaid land lease payments (2018: approximately HK$30.0 million); (iii) acquisition of other intangible assets of approximately HK$1.5 million (2018: approximately HK$13.5 million); and (iv) investments in and acquisition of equity interests in subsidiaries, joint ventures and associates of approximately HK$652.8 million (2018: approximately HK$4,685.4 million).

2.24 Liquidity and financial resources

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

As at 31 December 2019, the Group's cash and cash equivalents amounted to approximately HK$3,698.8 million (2018: approximately HK$2,768.4 million).

Developments of the clean energy businesses require material initial capital investments and the Group funds such developments during the year mainly by (i) long-term bank and other borrowings and lease liabilities under finance lease arrangements/finance lease payables; (ii) perpetual capital instrument; (iii) corporate bond; and (iv) capital contribution as illustrated below.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.24 Liquidity and financial resources (Continued)

(a) Long-term bank and other borrowings and lease liabilities under finance lease arrangements/finance lease payables

As at 31 December 2019, the Group's total borrowings of approximately HK$27,599.8 million (2018: approximately HK$22,242.5 million) comprised (i) bank and other borrowings of approximately HK$12,167.9 million (2018: approximately HK$7,550.2 million); (ii) corporate bond of approximately HK$557.0 million (2018: Nil) and (iii) lease liabilities under finance lease arrangements/finance lease payables of approximately HK$14,874.9 million (2018: approximately HK$14,692.3 million). 79% (2018: 87%) of the Group's borrowings are long-term borrowings and over 99% (2018: 99%) of the Group's borrowings bear interest at floating rates.

(b) Perpetual capital instrument

On 27 November 2018, the Company issued perpetual capital instrument (the "Perpetual Capital Instrument") with an aggregate principal amount of RMB1,000,000,000 (equivalent to HK$1,190,476,000) for the purposes of repaying certain of the Group's indebtedness and the Group's general working capital. It was the first corporate green panda perpetual capital instrument issued in the PRC and the first perpetual capital instrument issued by the Group. In January 2019, the Company was awarded as one of the "Outstanding Fixed Income Product Issuers" by the Shenzhen Stock Exchange. Net proceeds after deducting issue expenses amounted to RMB997,000,000 (equivalent to HK$1,131,315,000). There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the Company subject to certain conditions. The Perpetual Capital Instrument is classified as equity instruments. During the year ended 31 December 2019, distributions of RMB65,000,000 (approximately HK$73,864,000) (2018: Nil) was declared and paid to the holders of the Perpetual Capital Instrument.

(c) Corporate bond

A corporate bond (the "Corporate Bond") with an aggregate principal amount of RMB500,000,000 was issued by the Company to certain institutional investors on 6 December 2019, bearing interest at a rate of 5.99% per annum, for the purposes of capital injections to the project companies and repaying certain of the Group's indebtedness. The Corporate Bond is unsecured and repayable on 6 December 2022. One year prior to the maturity pursuant to the terms and conditions in the subscription agreement of the Corporate Bond, the Company shall be entitled to adjust the coupon rate of the Corporate Bond and the bond holders shall be entitled to sell back the Corporate Bond to the Company. Further details of the Corporate Bond are set out in the Company's announcement dated 6 December 2019.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.24 Liquidity and financial resources (Continued)

(d) Capital contribution

On 27 December 2019, the Company, Harvest Sunny International Limited (the "Subsidiary") and 北清清潔能源投資有限公司 (Beiqing Clean Energy Investment Company Limited*) (the "Target Company"), both being indirect wholly-owned subsidiaries of the Company, entered into a capital contribution agreement with 天津市平安消費科技投資合夥企業(有限合夥) (Tianjin Ping An Consumption Technology Investment Partnership (Limited Partnership)*), 嘉興智精投資合夥企業(有限合夥) (Jiaxing Zhijing Investment Partnership (Limited Partnership)*), 嘉興智精恒錦投資合夥企業(有限合夥) (Jiaxing Zhijing Hengjin Investment Partnership (Limited Partnership)*) and 嘉興智精恒睿投資合夥企業(有限合夥) (Jiaxing Zhijing Hengrui Investment Partnership (Limited Partnership)*), (collectively referred to as the "Ping An Entities"), pursuant to which the Ping An Entities agreed to subscribe for new capital in the Target Company in the aggregate amount of RMB600 million (the "Capital Increase").

Upon completion of the Capital Increase, the Target Company will be held as to approximately 93.26% by the Subsidiary, and as to approximately 6.74% by the Ping An Entities. The Target Company will continue to be accounted as a subsidiary of the Company. The Capital Increase constitutes a deemed disposal by the Company of its interests in the Target Company. The Capital Increase was completed in December 2019 and the Target Company became an indirect non-wholly-owned subsidiary of the Company. Further details are set out in the Company's announcement dated 27 December 2019.

As majority of the funding derives from equity funds from shareholders in prior years, long-term borrowings, the Perpetual Capital Instrument and the Corporate Bond, the Group recorded net current assets position of approximately HK$1,606.4 million (2018: approximately HK$2,075.2 million) as at 31 December 2019.

The Group obtains certain unutilised banking facilities to enable higher flexibility and stability on capital management. As at 31 December 2019, the Group had unutilised banking facilities of approximately HK$2,429.0 million (2018: approximately HK$925.0 million) in aggregate with terms ranging from repayable on demand to 15 years (2018: ranging from repayable on demand to 15 years).

The Group's net gearing ratio, which was calculated by dividing net debt (defined as the Corporate Bond, bank and other borrowings and lease liabilities under finance lease arrangements/finance lease payables, net of cash and cash equivalents) by the sum of net debt and total equity, was 68% (2018: 64%) as at 31 December 2019. The increase in net gearing ratio was mainly due to the net effect of (i) the issue of the Corporate Bond for the purpose of funding the development of the clean energy businesses; (ii) the increase in bank and other borrowings and lease liabilities under finance lease arrangements/finance lease payables for the purpose of funding the development of the clean energy businesses; and (iii) the profit attributable to the equity holders of the Company during the year.

Management Discussion and Analysis

31 December 2019

IMPACT OF THE COVID-19 OUTBREAK ON THE GROUP

Since late 2019, the COVID-19 broke out in Wuhan, China. As the COVID-19 rapidly spreads, it became a worldwide concern. It poses challenges across various industries as well as people's livelihoods. The Group has taken immediate action to ensure the health and safety of our employees and minimise the impact of the COVID-19 outbreak on our business operation. The Group adopted several precautionary measures to protect our workplace from the outbreak of the COVID-19 by providing clear and timely guidelines to all staffs; following up on all staff's health status, travel history and potentially infectious contacts; and providing extra sanitisation products. Also, the Group is closely communicating with the business partners to follow-up different working schedules and planning.

Due to the unexpected outbreak of the COVID-19 in 2019, almost all provinces and municipalities of the PRC have delayed the resumption of the work of employees and business operation after the Chinese New Year. This has caused a serious adverse impact on the overall market's economic performance in January and February of 2020 and thereafter. However, due to the main business models of the Group as a photovoltaic power plant and wind power plant owner and operator, its daily operation has not been affected by any sudden outbreak or disaster but by the photovoltaic irradiation level and the wind speed level. This proves once again the stability of the photovoltaic power and the wind power electricity generation businesses by the Group. The Group was not aware of any material adverse effects on the consolidated financial statements as a result of the COVID-19 outbreak during the year ended 31 December 2019 and up to the date of this report.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

(a) On 9 October 2019, 中融國際信託有限公司 (Zhongrong International Trust Co., Ltd*) (the "Vendor"), 青海黃河水電再生鋁業有限公司 (Qinghai Huanghe Hydropower Renewable Aluminium Industry Co., Ltd.*) ("QHRA"), Mr. Yang Yi and 北清清潔能源投資有限公司 (Beiqing Clean Energy Investment Company Limited*) (the "Purchaser") entered into (i) an equity transfer agreement in relation to the acquisition of 49.09% equity interest in 青海華鑫水電開發有限公司 (Qinghai Huaxin Hydropower Development Co., Ltd.*) (the "Project Company") at a consideration of RMB1,270,586,100 (the "First Acquisition") and (ii) an equity transfer agreement in relation to the acquisition of 5% equity interest in the Project Company at a consideration of RMB129,413,900 (the "Second Acquisition") (collectively referred to as the "Acquisitions").

As at the date of this report, certain conditions precedent to the completion of Acquisitions have not been fulfilled. The Acquisitions have therefore not completed. The Purchaser, the Vendor, Mr. Yang Yi and QHRA are in active discussions if they would proceed with the Acquisitions. Further details are set out in the Company's announcements dated 9 October 2019 and 9 December 2019.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

(b) On 27 December 2019, the Company, Harvest Sunny International Limited (the "Subsidiary") and 北清清潔能源投資有限公司 (Beiqing Clean Energy Investment Company Limited*), (as the "Target Company"), both being indirect wholly-owned subsidiaries of the Company, entered into a capital contribution agreement with 天津市平安消費科技投資合夥企業（有限合夥）(Tianjin Ping An Consumption Technology Investment Partnership (Limited Partnership)*), 嘉興智精投資合夥企業（有限合夥）(Jiaxing Zhijing Investment Partnership (Limited Partnership)*), 嘉興智精恒錦投資合夥企業（有限合夥）(Jiaxing Zhijing Hengjin Investment Partnership (Limited Partnership)*) and 嘉興智精恒睿投資合夥企業（有限合夥）(Jiaxing Zhijing Hengrui Investment Partnership (Limited Partnership)*), (collectively referred to as the "Ping An Entities"), pursuant to which the Ping An Entities agreed to subscribe for new capital in the Target Company in the aggregate amount of RMB600 million (the "Capital Increase").

Upon completion of the Capital Increase, the Target Company will be held as to approximately 93.26% by the Subsidiary, and as to approximately 6.74% by the Ping An Entities. The Target Company will continue to be accounted as a subsidiary of the Company. The Capital Increase constitutes a deemed disposal by the Company of its interests in the Target Company. The Capital Increase was completed in December 2019 and the Target Company became an indirect non-wholly-owned subsidiary of the Company. Further details are set out in the Company's announcement dated 27 December 2019.

Save as disclosed above, there were no significant investments, material acquisition and disposal of subsidiaries and associated companies by the Group for the year ended 31 December 2019.

CHARGE ON THE GROUP'S ASSETS

The secured bank and other borrowings, lease liabilities under finance lease arrangements/finance lease payables and bills payables of the Group as at 31 December 2019 are secured by:

(i) pledges over certain of the Group's property, plant and equipment and operating concessions;

(ii) pledges over certain of the Group's trade receivables;

(iii) pledges over the Group's equity interests in certain subsidiaries;

(iv) guarantees given by the Company and/or its subsidiaries; and/or

(v) pledges over certain of the Group's bank balances.

Save as disclosed above, at 31 December 2019, the Group did not have any charges on the Group's assets.

CONTINGENT LIABILITIES

As at the end of the reporting period, the Group did not have any significant contingent liabilities (2018: Nil).

Management Discussion and Analysis

31 December 2019

FOREIGN EXCHANGE EXPOSURE

Majority of the subsidiaries of the Company operate in the PRC with most of the transactions denominated and settled in RMB. Fluctuations of exchange rates would impact the Group's net asset value due to currency translation in the preparation of the Group's consolidated accounts. If RMB appreciates/depreciates against HK$, the Group would record a(n) increase/decrease in the Group's net asset value. During the year ended 31 December 2019, the Group has not used derivative financial instruments to hedge against its foreign currency risk.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Fluctuation in currency exchange rates

The Group primarily operates its businesses in the PRC and most of its transactions are mainly denominated in RMB. The value of RMB against HK$ and other currencies may fluctuate and is affected by, among others, changes in the economic conditions and policies. The conversion of RMB into foreign currencies, including HK$, has been based on rates as promulgated by the People's Bank of China. The Group monitors foreign exchange exposures and takes appropriate measures to mitigate and manage the risk on a timely and effective manner by, including but not limited to, raising debt financing denominated in RMB to match the currency of operating cash flows.

Liquidity risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due. During the year, the Group steadily expanded the clean energy businesses, which require material funding in investment and development stages. In managing the liquidity risk, the Group, among others, (i) obtains long-term borrowings, issues perpetual capital instrument and corporate bond and introduced strategic capital investments in a subsidiary as detailed under the section headed "2.24 Liquidity and financial resources" in "Management Discussion and Analysis"; (ii) monitors and maintains an adequate level of cash and credit facilities; and (iii) timely monitors the settlements of receivables.

Policy risks

The Group's clean energy businesses are dependent on the relevant governmental support measures (including the preferential tax policies, subsidies and government grants, electricity generation dispatch priority, laws and regulations, etc.) for steady and healthy development. Although the Chinese government has been supportive to the growth of the clean energy businesses, it is possible that the existing governmental support measures will be modified. The Group will strictly cohere to the government measures and will closely monitor the policy planning to grasp the business opportunities and get understanding on the risks associated with the policy modifications in advance.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Other business risks

The risks and uncertainties on the Group's clean energy businesses, in particular the Photovoltaic Power Business and the Wind Power Business, also comprise (i) the risks on project performance; and (ii) grid curtailment risks. If any of these risks and uncertainties materialise, overall growth and profitability would be affected. In mitigating the risks on project performance, the Group places significant emphasis on, among others, (i) implementing effective investment due diligence, approval and review processes; (ii) monitoring and controlling the quality and performance of its assets and businesses; (iii) human capital and technical strengths; and (iv) relationships with customers and suppliers, in order to facilitate the positive development of these businesses. On the other hand, in mitigating the curtailment risks, the Group strategically focuses on developing the Photovoltaic Power Business and the Wind Power Business in regions which are well-developed with power transmission network and with stronger economy and electricity demand, and in general do not have curtailment issue.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group employed 2,059 employees (2018: 2,466 employees) with total staff cost of approximately HK$369.5 million incurred for the year ended 31 December 2019 (2018: approximately HK$479.8 million). The Group's remuneration packages are generally structured with reference to market terms and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

CORPORATE SOCIAL RESPONSIBILITY

Environmental policies and performance

The Group is committed to sustainable development of the environment, minimising the environmental impact of its operations by reinforcing environmental awareness and implementing measures for the responsible use of resources, energy saving and waste management. The Group is dedicated to environmental sustainability by strategically expanding into the Photovoltaic Power Business, the Wind Power Business, the Clean Heat Supply Business and other clean energy businesses, which offer clean energy and contribute to the widespread use of renewable energy.

Compliance with relevant laws and regulations

During the year, as far as the Group is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

Relationship with stakeholders

The Group recognises that stakeholders including employees, shareholders and investors, customers, suppliers and contractors, government entities, industry partners and community partners are the key to corporate sustainability and is keen on developing long-term relationships with these stakeholders. Some examples on supporting and communicating with the stakeholders include:

(a)	Employees	:	The Company places significant emphasis on human capital and strives to foster an environment in which the employees can develop to their fullest potential and can assist their personal and professional growth. The Company provides a fair and safe workplace, promotes diversity to our staff, and provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts on-going efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfilment in their positions;
(b)	Shareholders and investors	:	Details of which are set out in the section headed "Investor Relations – Communication with shareholders" in the "Corporate Governance Report" of this annual report;
(c)	Customers	:	The Group understands that it is important to maintain good relationship with customers and provide products in a way that satisfy their needs and requirements. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the products so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner; and
(d)	Suppliers and contractors	:	The Group is also dedicated to develop good relationship with suppliers and contractors as long-term business partners to ensure stable supply of materials and timely delivery of construction works. We reinforce business partnerships with suppliers and contractors by on-going communication in a proactive and effective manner so as to ensure quality and timely delivery.

Environmental, social and governance report

Further details of the Group's commitment and strategies to sustainability and the performance in environmental contributions, employee relations, supply chain management, occupational health and safety and social investments of the core business of the Group for the year ended 31 December 2019 are set out in the Group's Environmental, Social and Governance Report for the year ended 31 December 2019, which will be published on the websites of the Company (www. bece.com.hk) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) by the end of July 2020.

* *For identification purposes only*

Management discussion and analysis of the results of the Target Company for the year ended 31 December 2020

1. BUSINESS REVIEW

During the year ended 31 December 2020, the Group was principally engaged in the investment, development, construction, operation and management of photovoltaic power businesses (the "Photovoltaic Power Business"), wind power businesses (the "Wind Power Business") and clean heat supply businesses (the "Clean Heat Supply Business") in the PRC.

Financial highlights:

	2020	2019	Change
	HK$'000	HK$'000	*%*
Revenue	**5,551,791**	6,335,620	(12)
Gross profit	**2,662,864**	2,896,755	(8)
Gross profit ratio *(%)*	**48.0**	45.7	2.3
Profit for the year	**886,440**	842,086	5
Profit attributable to the equity holders of the Company	**659,983**	682,864	(3)
Basic EPS (in HK cent(s))	**0.92**	0.96	(4)
EBITDA	**3,523,450**	3,281,219	7
Total assets	**57,127,247**	52,192,282	9
Equity	**13,124,890**	11,005,769	19
Cash and cash equivalents	**2,521,536**	3,698,835	(32)

Amidst the severe and complex domestic and international environment, especially the rampancy of the novel coronavirus pneumonia (COVID-19) pandemic, under the strong leadership of the CPC Central Committee with General Secretary Xi Jinping at its core, major strategic results have been achieved in the prevention and control of the pandemic. The economic and social development goals and tasks have been completed in a better-than-expected progress. While taking the pandemic prevention and control as part of new normal, China continued to introduce various energy-related favourable policies to accelerate the clean and efficient use of fossil energy, and vigorously promoted non-fossil energy to continuously increase the proportion of clean energy consumption and to promote the transformation of environmentally friendly and low-carbon production of energy.

1. BUSINESS REVIEW (CONTINUED)

The pandemic had a relatively minor impact on the industries of the Group compared to other industries. Due to the COVID-19 outbreak and partial or complete lockdowns during the first half of 2020, the development and construction works of certain new power plant projects were delayed in the first quarter of 2020, but have gradually resumed since the second quarter of 2020 after the lifting of the movement and quarantine restrictions in the PRC. As a clean energy project owner and operator, however, the Group was not affected by the economic adversity caused by the pandemic. The revenue contribution from the sale of electricity and entrusted operations businesses remained stable. Generally speaking, the pandemic had no material impact on the business operations of the Group in 2020. In 2020, the power generation of the Group on a consolidated basis amounted to approximately 3.8 million megawatt-hour ("MWh") (2019: approximately 3.6 million MWh), representing an increase of approximately 6% compared with the corresponding period of 2019. The aggregate operating power generation# of the projects held and/or managed by the Group, the associates and the joint ventures of the Group for 2020 was approximately 4.8 million MWh (2019: approximately 4.6 million MWh), representing an increase of approximately 4% compared with the corresponding period of 2019.

The Group's revenue and business structure has been continuously optimised by focusing on the power generation business with stronger sustainability, driving quality and efficiency enhancement of its existing projects, implementing cost reduction and efficiency enhancement by seeking further optimisation of its business mix in an active move to advance business transformation with an objective to improve the Group's overall performance. Although the revenue of the Group decreased by approximately 12% as compared to the corresponding period of last year, the gross profit margin increased from 45.7% to 48.0% as compared to the corresponding period of last year.

Profit for the year of the Group was approximately HK$886.4 million (2019: approximately HK$842.1 million), representing an increase of approximately 5% as compared to the corresponding period of last year. Profit attributable to the equity holders of the Company was approximately HK$660.0 million (2019: approximately HK$682.9 million), representing a decrease of approximately 3% as compared to the corresponding period of last year.

Further details of the discussion of financial performance are set out in the section headed "2. Financial Performance" in "Management Discussion and Analysis". Analysis of the business performance is set out below.

The operating power generation included (i) the power generation of the projects held by the Group, the associates and the joint ventures of the Group; and (ii) the power generation of the projects managed by the Group through the provision of entrusted management services.

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations

During the year, the Group steadily developed its operating capacity through the investment, development, construction, operation and management of clean energy power plant projects, and the aggregate revenue in respect of the sale of electricity and the provision of entrusted management services amounted to approximately HK$3,369.8 million (2019: approximately HK$3,370.9 million), which was comparable to the corresponding period of last year.

Pursuant to the "Opinions on Promoting the Healthy Development of Non-hydro Renewable Power Generation*" (《關於促進非水可再生能源發電健康發展的若干意見》) and the revised "Administrative Measures for the Additional Subsidies for Renewable Energy Electricity Prices*" (《可再生能源電價附加補助資金管理辦法》) jointly announced by the Ministry of Finance, the National Development and Reform Commission of the PRC (the "NDRC") and the National Energy Administration, and also the "Notice on Relevant Review Work on the Projects List of Renewable Energy Power Generation Subsidies*" (《關於開展可再生能源發電補貼項目清單審核有關工作的通知》) announced by the Ministry of Finance in the first quarter of 2020, the rules for settlement of additional subsidies for renewable energy electricity prices as well as the conditions and application procedures for entering the list of National Renewable Energy Power Generation Subsidies for the renewable energy power generation projects (the "Project List") were further clarified. In addition, the "Notice on the Acceleration of Relevant Review Work on the Projects List of Renewable Energy Power Generation Subsidies*" (《關於加快推進可再生能源發電補貼項目清單審核有關工作的通知》) issued by the Ministry of Finance in November 2020, emphasises acceleration of review on existing renewable energy power generation projects, make sure that those projects should enter the Project List in batches as soon as possible. It also clarifies that all qualified renewable energy power generation projects which have already completed the approval procedures as required in or after 2006 could enter the Project List. Those photovoltaic and wind power plants projects registered into the first to seventh batches of the Renewable Energy Tariff Subsidy Catalogues (the"Subsidy Catalogues") will be enlisted in the Project List automatically.

As at 31 December 2020, the Group has several photovoltaic and wind power plants with aggregated capacity of 1,800MW successfully enlisted in the Project List. The Directors expect that the remaining projects of the Group will receive the review approval and be enrolled in the Project List within 2021. The above opinions and notices show that the government is doing its best to solve the problem of arrears in subsidies for renewable energy power generation projects, which is beneficial to the betterment of the Group's cash flow. The Group will closely follow up and implement remaining project inventory declaration and national subsidies related works and will proactively promote the implementation of relevant strategies to improve the receipt of national subsidies.

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.1 Photovoltaic Power Plant Projects

(a) Scale and performance of the centralised photovoltaic power plant projects

During the year, the Group's centralised photovoltaic power business operated steadily. The Group recorded revenue of approximately HK$2,390.9 million (2019: approximately HK$2,494.9 million) from the sale of electricity from the Group's centralised photovoltaic power plants, representing 43% (2019: 39%) of the Group's total revenue during the year.

As at 31 December 2020, 50 (2019: 52) centralised photovoltaic power plants covering 12 provinces, 1 municipality and 2 autonomous regions in the PRC and 1 (2019: 1) centralised photovoltaic power plant in Whyalla, Southern Australia, Australia were held by the Group and in operation, and the aggregate on-grid capacity of these photovoltaic power plants reached 2,239MW (2019: 2,256MW), details of which are set forth below:

Location	Photovoltaic resource area	2020 Number of plants	2020 Approximate total on-grid capacity (MW)	2020 Approximate aggregate power generation (note 1) (MWh)	2019 Number of plants	2019 Approximate total on-grid capacity (MW)	2019 Approximate aggregate power generation (note 1) (MWh)
PRC–Subsidiaries:							
Hebei Province	II/III	**16**	**572**	**671,863**	16	469	605,520
Henan Province	III	**3**	**264**	**333,254**	3	264	339,488
Shandong Province	III	**5**	**248**	**308,996**	5	248	329,223
Guizhou Province	III	**4**	**211**	**211,666**	4	211	223,675
Anhui Province	III	**6**	**191**	**202,544**	6	191	220,366
Shaanxi Province	II	**2**	**160**	**249,703**	2	160	245,944
Jiangxi Province	III	**3**	**125**	**125,212**	3	125	133,048
Jiangsu Province (note 2)	III	**1**	**100**	**177,879**	3	220	204,884
The Ningxia Hui Autonomous Region	I	**1**	**100**	**145,809**	1	100	143,418
Hubei Province	III	**2**	**43**	**41,063**	2	43	45,247
Jilin Province	II	**1**	**30**	**46,791**	1	30	49,637
The Tibet Autonomous Region	III	**1**	**30**	**40,524**	1	30	41,218
Tianjin Municipality	II	**1**	**30**	**44,772**	1	30	46,630
Yunnan Province	II	**1**	**22**	**30,794**	1	22	33,279
Shanxi Province	III	**1**	**20**	**28,373**	1	20	28,362
		48	**2,146**	**2,659,243**	50	2,163	2,689,939
PRC–Joint ventures:							
Anhui Province	III	**1**	**60**	**74,825**	1	60	79,847
Hubei Province	III	**1**	**27**	**27,095**	1	27	26,551
		2	**87**	**101,920**	2	87	106,398
PRC–Sub-total		**50**	**2,233**	**2,761,163**	52	2,250	2,796,337
Overseas–Subsidiary:							
Whyalla, Southern Australia, Australia	N/A	**1**	**6**	**6,450**	1	6	9,666
Total		**51**	**2,239**	**2,767,613**	53	2,256	2,806,003

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.1 Photovoltaic Power Plant Projects (Continued)

(a) Scale and performance of the centralised photovoltaic power plant projects (Continued)

Most of the Group's centralised photovoltaic power plant projects in the PRC were situated in photovoltaic resource areas II and III as promulgated by the NDRC, locations considered by the management to be favourable for the development of the Group's Photovoltaic Power Business. Set out below the projects analysis by photovoltaic resource areas:

	2020			2019		
Photovoltaic resource area	Number of plants	Approximate total on-grid capacity (MW)	Approximate aggregate power generation (note 1) (MWh)	Number of plants	Approximate total on-grid capacity (MW)	Approximate aggregate power generation (note 1) (MWh)
PRC – Subsidiaries:						
I	**1**	**100**	**145,809**	1	100	143,418
II	**12**	**448**	**689,725**	12	448	677,492
III	**35**	**1,598**	**1,823,709**	37	1,615	1,869,029
	48	**2,146**	**2,659,243**	50	2,163	2,689,939
PRC – Joint ventures:						
III	**2**	**87**	**101,920**	2	87	106,398
Total	**50**	**2,233**	**2,761,163**	52	2,250	2,796,337

Note 1: It represented the approximate aggregate power generation of the projects from the later of (i) the dates of acquisition by the Group; (ii) the dates of commencement of operation; and (iii) the beginning of the respective reporting periods, to the end of the respective reporting periods. Therefore, the above aggregate power generation may not reflect a full period performance of these operations.

Note 2: On 8 May 2020, (i) an equity transfer agreement was entered into by and among 天津富歡企業管理諮詢有限公司 (Tianjin Clean Energy Investment Company Limited*) (the "Vendor" or "TJCE"), 國投電力控股股份有限公司 (SDIC Power Holdings Co., Ltd.*) (the "Purchaser" or "SDIC Power") and 響水恒能太陽能發電有限公司 (Xiangshui Hengneng Photovoltaic Power Co., Ltd.*) ("XSHN"), in relation to the disposal of the entire equity interest of XSHN at a total consideration of RMB438,000,000; and (ii) an equity transfer agreement was entered into by and among the Vendor, the Purchaser and 響水永能太陽能發電有限公司 (Xiangshui Yongneng Photovoltaic Power Co., Ltd.*) ("XSYN"), in relation to the disposal of the entire equity interest of XSYN at a total consideration of RMB100,000,000 (the "Disposals").

Upon completion of the Disposals on 28 May 2020, XSHN and XSYN ceased to be subsidiaries of the Group. Further details of the Disposals are set out in the Company's announcement dated 8 May 2020 and the Company's circular dated 24 July 2020. As a result, the financial results of XSHN and XSYN from the beginning of the year and up to the completion date of the Disposals were consolidated into the Group's results during the year.

Note 3: During the year ended 31 December 2020, the average unit selling price (excluding value-added tax) per kilowatt-hour of the above projects located in the PRC was approximately RMB0.80.

Management Discussion and Analysis

31 December 2020

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.1 Photovoltaic Power Plant Projects (Continued)

(b) Scale of the centralised photovoltaic power plant projects registered in the Project List

During the year, settlements of the renewable energy subsidies of these centralised photovoltaic power plants held by the Group's subsidiaries in the amount of approximately HK$630.4 million were received. As at 31 December 2020, the Group's aggregate installed capacity of the centralised photovoltaic power plants registered into the Project List reached approximately 1,300MW. The remaining centralised photovoltaic power plant projects of the Group are pending from the review approval to enroll in the Project List. The Group will continue its effort on enrolling the remaining centralised photovoltaic power plant projects into the Project List. The Directors expect that the remaining projects of the Group will receive the review approval and be enrolled in the Project List within 2021.

Centralised Photovoltaic Power Plant, Weishan, Shandong Province

Centralised Photovoltaic Power Plant, Qixian Miaokou, Henan Province

(c) Key performance data of the centralised photovoltaic power plant projects held by the Group and in operation on or before the beginning of the reporting period

	2020	2019	Changes
Weighted average curtailment ratio (%)	**2.37**	1.69	0.68
Weighted average utilisation hours (hours)	**1,280**	1,295	(15)

During the year, the weighted average utilisation hours reached 1,280 hours, which was higher than the national average utilisation hours of photovoltaic power in the PRC of 1,160 hours. The Group's centralised photovoltaic power plant projects are mainly located in photovoltaic resource areas II and III as promulgated by the NDRC and therefore a relatively low weighted average curtailment ratio was achieved. The increase of weighted average curtailment ratio during the year as compared to the corresponding period of last year was mainly attributable to the decrease in demand for electricity due to the COVID-19 outbreak in the first quarter of 2020, and the situation has gradually improved since the second quarter of 2020.

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.1 Photovoltaic Power Plant Projects (Continued)

(d) Scale and performance of the distributed photovoltaic power plant projects

In respect of the distributed photovoltaic power business, as at 31 December 2020, the total installed capacity of the distributed photovoltaic power plants held and/or managed by the Group and in operation reached approximately 700MW, mainly located in photovoltaic resource area III as promulgated by the NDRC such as Henan Province, Anhui Province, Shandong Province, Jiangsu Province and Hebei Province, which included the distributed photovoltaic power plants constructed by the Group in certain water plants of Beijing Enterprises Water Group Limited of which the Group sold electricity to respective water plants. Revenue from the sale of electricity from the Group's distributed photovoltaic power plants reached approximately HK$455.3 million during the year (2019: approximately HK$390.0 million).

Distributed Photovoltaic Power Plant in a water plant of BEWG, Dongguan, Guangdong Province

(e) Scale of the distributed photovoltaic power plant projects registered in the Project List

During the year, settlements of the renewable energy subsidies of distributed photovoltaic power plants in the amount of approximately HK$57.9 million were received. As at 31 December 2020, the Group's aggregate installed capacity of the distributed photovoltaic power plants registered into the Project List reached approximately 300MW. The remaining distributed photovoltaic power plant projects of the Group are pending from the review approval to enroll in the Project List. The Group will continue its effort on enrolling the remaining distributed photovoltaic power plant projects into the Project List. The Directors expect that the remaining projects of the Group will receive the review approval and be enrolled in the Project List within 2021.

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.1 Photovoltaic Power Plant Projects (Continued)

(f) Entrusted management services

In addition to the above-mentioned sale of electricity from the Group's photovoltaic power plants, the Group provided entrusted management services for photovoltaic power plant projects in the PRC and revenue of approximately HK$90.0 million (2019: approximately HK$168.6 million) was recognised during the year.

1.1.2 Wind Power Plant Projects

Under the situation and requirements of strictly controlling the total amount and intensity of traditional energy consumption and continuous improvement of the ecological environment, especially the announcement of accomplishment of "CO2 Emissions Peak" and "Carbon Neutrality" goals, wind power as a green and clean energy, will become the main strategic energy in the PRC in the future. With the Group's expertise and professional team in, among others, investing, developing and managing wind and other clean energy power businesses, the Group is optimistic on continuously developing its Wind Power Business to contribute effort in building up a green future of the PRC.

(a) Scale and performance of the wind power plant projects

During the year, the Group's Wind Power Business expanded steadily. The Group recorded revenue of approximately HK$322.1 million (2019: approximately HK$238.4 million) from the sale of electricity from the Group's wind power plants.

Wind Power Plant, Alashan, The Inner Mongolia Autonomous Region

Wind Power Plant, Binzhou, Shandong Province

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.2 Wind Power Plant Projects (Continued)

(a) Scale and performance of the wind power plant projects (Continued)

As at 31 December 2020, through self-development, joint development, acquisitions, etc., the Group's aggregate capacity of the grid-connected, under-construction and approved-to-construct wind power projects reached over 1,400MW. These projects mainly located in Hebei Province, Henan Province, Shandong Province and the Inner Mongolia Autonomous Region and mainly situated in resource area IV as promulgated by the NDRC. Among which, 11 projects (2019: 7 projects) with an aggregate on-grid capacity of 438MW (2019: 190MW) were held by the Group and in operation as at 31 December 2020, which is analysed below:

Location	Wind resource area	2020 Number of plants	2020 Approximate total on-grid capacity (MW)	2020 Approximate aggregate power generation (note 1) (MWh)	2019 Number of plants	2019 Approximate total on-grid capacity (MW)	2019 Approximate aggregate power generation (note 1) (MWh)
PRC – Subsidiaries:							
The Inner Mongolia Autonomous Region	I	**4**	**119**	**378,415**	4	119	340,120
Henan Province	IV	**5**	**171**	**135,214**	2	23	19,837
Hebei Province	IV	**1**	**100**	**37,712**	–	–	–
Shandong Province	IV	**1**	**48**	**98,988**	1	48	106,113
Total		**11**	**438**	**650,329**	7	190	466,070

Most of the Group's wind power plant projects in the PRC were situated in wind resource area IV as promulgated by the NDRC, locations considered by the management to be favourable for the development of the Group's Wind Power Business. Set out below the projects analysis by wind resource areas:

Wind resource area	2020 Number of plants	2020 Approximate total on-grid capacity (MW)	2020 Approximate aggregate power generation (note 1) (MWh)	2019 Number of plants	2019 Approximate total on-grid capacity (MW)	2019 Approximate aggregate power generation (note 1) (MWh)
PRC – Subsidiaries:						
I	**4**	**119**	**378,415**	4	119	340,120
IV	**7**	**319**	**271,914**	3	71	125,950
Total	**11**	**438**	**650,329**	7	190	466,070

Note 1: It represented the approximate aggregate power generation of the projects from the later of (i) the dates of acquisition by the Group; (ii) the dates of commencement of operation; and (iii) the beginning of the respective reporting periods, to the end of the respective reporting periods. Therefore, the above aggregate power generation may not reflect a full year performance of these operations.

Note 2: During the year ended 31 December 2020, the average unit selling price (excluding value-added tax) per kilowatt-hour of the above projects was approximately RMB0.45.

1. BUSINESS REVIEW (CONTINUED)

1.1 Sale of Electricity and Entrusted Operations (Continued)

1.1.2 Wind Power Plant Projects (Continued)

(b) Scale of the wind power plant projects registered in the Project List

During the year, settlements of the renewable energy subsidies of these wind power plants in the amount of approximately HK$37.6 million were received. As at 31 December 2020, the Group's aggregate installed capacity of the wind power plants registered into the Project List reached approximately 200MW. The remaining wind power plant projects of the Group are pending from the review approval to enroll in the Project List. The Group will continue its effort on enrolling the remaining wind power plant projects into the Project List. The Directors expect that the remaining projects of the Group will receive the review approval and be enrolled in the Project List within 2021.

(c) Key performance data of the wind power plant projects held by the Group and in operation on or before the beginning of the reporting period

	2020	2019	Changes
Weighted average curtailment ratio (%)	**3.00**	0.05	2.95
Weighted average utilisation hours (hours)	**2,955**	2,810	145

During the year, the weighted average utilisation hours reached 2,955 hours, which was higher than the national average utilisation hours of wind power in the PRC of 2,097 hours. The increase of weighted average curtailment ratio during the year as compared to the corresponding period of last year was mainly attributable to the decrease in demand for electricity due to the COVID-19 outbreak in the first quarter of 2020, and the situation has gradually improved since the second quarter of 2020.

(d) Entrusted management services

In addition to the above-mentioned sale of electricity from the Group's wind power plants, the Group provided entrusted management services for wind power plant projects in the PRC and revenue of approximately HK$111.5 million (2019: HK$79.0 million) was recognised during the year.

1.2 Engineering, Procurement and Construction Services, and Technical Consultancy Services

The Group is engaged in the provision of engineering, procurement and construction services for clean energy businesses including photovoltaic and wind power-related projects and clean heat supply projects in the PRC, and has couples of qualification and extensive experience in the design, engineering and construction of power-related projects. At the same time, the Group pays much attention to self-owned photovoltaic and wind power-related project construction, which can optimise the resource allocation during the year. Therefore, revenue of approximately HK$802.0 million (2019: approximately HK$1,759.4 million) in aggregate arising from provision of engineering, procurement and construction services was recognised during the year, representing 15% (2019: 29%) of the Group's total revenue during the year and a decrease of 54% as compared to the corresponding period of last year.

1. BUSINESS REVIEW (CONTINUED)

1.2 Engineering, Procurement and Construction Services, and Technical Consultancy Services (Continued)

In addition, certain photovoltaic power plants and clean heat supply projects on a build-operate-transfer basis (the "BOT Basis") were under construction during the year. With reference to HK (IFRIC) Interpretation 12 *Service Concession Arrangements,* construction revenue of approximately HK$246.6 million (2019: approximately HK$189.5 million) was recognised during the year with reference to the fair value of construction services delivered during the construction phase. The fair value of such services is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the inception date of the relevant service concession agreements.

In respect of the technical consultancy services, the Group successfully marketed the aforementioned qualification and experience to other industry participants. Revenue of approximately HK$172.9 million (2019: approximately HK$221.1 million) was recognised during the year.

1.3 Provision of Clean Heat Supply Services

Clean heat supply represents the production of low emission heat through the utilisation of clean energies and the supply of such heat to end users. With various supportive government policies issued including but not limited to the issuance of the "Notice on the Winter Clean Heat Plan (2017 to 2021) of the Northern China*" (《關於印發北方地區冬季清潔取暖規劃(2017-2021年) 的通知》) jointly by ten government authorities in December 2017 and the "Notice on the Budget for Air Pollution Prevention and Control in 2019*" (《關於下達2019年度大氣污染防治資金預算的通知》) by the Ministry of Finance in June 2019, the Clean Heat Supply Business shall have a favourable business prospects.

As at 31 December 2020, through development and business acquisition, 15 projects (2019: 17 projects) in operation with an aggregate actual clean heat supply area reached 29.0 million square meters ("sq.m.") (2019: 27.4 million sq.m.) and the number of heat supply services users of approximately 238,198 households (2019: approximately 231,657 households), representing a year-on-year increase of 3%, with its projects locating in Henan, Hebei, Shanxi, Shaanxi, the Ningxia Hui Autonomous Region, Liaoning and other provinces and autonomous regions were held and/or managed by the Group, the associates and the joint ventures of the Group through the utilisation of clean energies such as natural gas, electricity, geothermal energy, biomass energy, photovoltaic power, industrial excess heat energy, clean coal (ultra-low emission) energy, river water source, etc. Revenue of approximately HK$960.5 million (2019: approximately HK$794.7 million) arising from the provision of clean heat supply services was recognised by the Group during the year, representing an increase of approximately 21% as compared to the corresponding period of last year.

1. BUSINESS REVIEW (CONTINUED)

1.3 Provision of Clean Heat Supply Services (Continued)

Among them, details of actual clean heat supply area and number of heat supply services users of the projects in operation which were held and/or managed by the Group, the associates and the joint ventures of the Group are as follows:

Location	Approximate actual clean heat supply area			Approximate heat supply services users		
	31 December 2020 ('000 sq.m.)	31 December 2019 ('000 sq.m.)	Change (%)	**31 December 2020 (households)**	31 December 2019 (households)	Change (%)
North region, China	**13,684**	12,954	5.6	**108,936**	108,403	0.5
Northeast region, China	**7,694**	7,337	4.9	**76,999**	72,935	5.6
Northwest region, China	**5,871**	5,465	7.4	**37,773**	36,309	4.0
East and Central regions, China	**1,792**	1,642	9.1	**14,490**	14,010	3.4
Total	**29,041**	27,398	6.0	**238,198**	231,657	2.8

1.4 Other Clean Energy Businesses

The Group has been exploring other clean energy businesses such as multi-energy complement, hydropower, energy storage, distribution and sales of electricity, hydrogen production and other business lines, and exploring international opportunities for strategic development and diversification, with an aim to become a leading integrated clean energy service provider. During the year, the Group has also entered into strategic cooperation agreements with local governments and well-established enterprises, and proactively established integrated partnerships to seek joint development in the field of clean energy for the purpose of mutual benefits and complementarity.

In 2020, the Group continued to proactively explore development opportunities for investment, construction and operation in the hydropower sector. As a new strategic business of the Group, the hydropower business is coordinated with other segments. Relying on hydropower, the Group may establish energy bases which integrate the storage and transmission of wind power, photovoltaic power and hydropower, so as to deliver greater scale advantages and operating benefits, which is expected to contribute more stable income and cash flow to the Group in the future, optimises the Group's clean energy power station asset portfolio and ultimately deliver greater returns to shareholders.

2. FINANCIAL PERFORMANCE

2.1 Revenue and gross profit margin

The Group recorded revenue of approximately HK$5,551.8 million (2019: approximately HK$6,335.6 million) during the year ended 31 December 2020, representing a decrease of approximately 12% as compared to the corresponding period of last year. For the year ended 31 December 2020 (i) revenue from the sale of electricity and entrusted management services reached approximately HK$3,369.8 million (2019: approximately HK$3,370.9 million) in aggregate, which was comparable to the corresponding period of last year; and (ii) revenue from construction services was approximately HK$1,048.6 million (2019: approximately HK$1,948.9 million), representing a decrease of 46% as compared to the corresponding period of last year.

The gross profit performance by business nature is set out below:

	2020			2019		
	Revenue (HK$ million)	**Gross profit ratio (%)**	**Gross profit (HK$ million)**	Revenue (HK$ million)	Gross profit ratio (%)	Gross profit (HK$ million)
Sale of electricity						
Photovoltaic Power Business	**2,846.2**	**68.6**	**1,953.5**	2,884.9	66.2	1,910.9
Wind Power Business	**322.1**	**62.2**	**200.3**	238.4	66.8	159.2
Construction services	**1,048.6**	**22.7**	**237.9**	1,948.9	13.8	269.3
Technical consultancy services	**172.9**	**60.7**	**105.0**	221.1	70.7	156.3
Entrusted operations	**201.5**	**38.3**	**77.1**	247.6	81.7	202.2
Provision of clean heat supply services	**960.5**	**9.3**	**89.0**	794.7	25.0	198.8
Total	**5,551.8**	**48.0**	**2,662.8**	6,335.6	45.7	2,896.7

Analysis of the above businesses are set out in the section headed "1. Business Review" in "Management Discussion and Analysis".

Gross profit for the sale of electricity increased from approximately HK$2,070.1 million for the year ended 31 December 2019 to approximately HK$2,153.8 million during the year ended 31 December 2020, representing 81% (2019: 71%) to the total gross profit of the Group. The increase in contribution of sale of electricity to the Group's total gross profit was mainly attributable to the steady development of the Group's operating capacity of the photovoltaic and wind power plant projects. On the other hand, contribution of construction services to the Group's total gross profit was 9% (2019: 9%) during the year. The overall gross profit ratio increased from 45.7% during the year ended 31 December 2019 to 48.0% during the year ended 31 December 2020.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.2 Other income and gains, net

The Group's other income and gains, net achieved approximately HK$206.3 million (2019: approximately HK$278.3 million) during the year, which mainly comprised (i) interest income of approximately HK$43.1 million (2019: approximately HK$113.0 million); (ii) government grants of approximately HK$108.4 million (2019: approximately HK$135.6 million); and (iii) gains on disposal of interest in a joint venture of HK$22.0 million (2019: Nil).

2.3 Administrative expenses

The decrease in administrative expenses to approximately HK$388.6 million (2019: approximately HK$557.6 million) was mainly attributable to the decreases in rental expenses, business travelling expenses and staff costs as a result of implementing cost reduction and efficiency enhancement by the Group.

2.4 Other operating expenses, net

The decrease in other operating expenses from HK$315.4 million in 2019 to HK$157.1 million during the year was mainly due to certain one-off impairments were provided in 2019 while no such items incurred during the year.

2.5 Finance costs

The increase in finance costs of the Group by approximately HK$113.5 million to approximately HK$1,323.7 million (2019: approximately HK$1,210.2 million) was mainly attributable to the increase in the average balances of corporate bonds, bank loans and other borrowings of the Group as compared to the corresponding period of last year.

2.6 Income tax expense

The Group conducted its principal activities in the PRC and the relevant standard corporate income tax rate was 25%. The Group's effective tax rate was lower than the standard corporate income tax rate in the PRC as certain of the Group's operating subsidiaries enjoyed tax concession benefits during the corresponding years.

2.7 Property, plant and equipment

Property, plant and equipment mainly represented the carrying amounts of clean energy projects held by the Group and in operation or under construction, and the increase was mainly attributable to the net effect of (i) the acquisition and development of clean energy projects; and (ii) the disposals of clean energy projects during the year.

2.8 Investment properties

The Group's investment properties mainly represented the fair value of an office in Hong Kong and were leased to an independent third party.

2.9 Goodwill

It was attributable to the acquisition of subsidiaries since 2016.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.10 Operating concessions and operating rights

Operating concessions represented the rights to operate certain photovoltaic power plants and clean heat supply projects under the BOT Basis, and operating rights represented the operating rights arising from the acquisition of clean energy businesses with reference to HKFRS 3 (Revised) *Business Combinations*. The increase in operating concessions was mainly attributable to the construction of certain clean energy projects on a BOT Basis, and the increase in operating rights was mainly attributable to the net effect of (i) the acquisition of clean energy businesses; and (ii) amortisation provided for during the year.

2.11 Investments in joint ventures

It mainly represented the capital contributions made by the Group to the limited partnerships established in the PRC and joint ventures established for conducting the clean energy businesses, the increase was mainly attributable to the capital contributions made to joint ventures.

2.12 Investments in associates

It mainly represented (i) the Group's investment in 北清環能集團股份有限公司 (BECE Legend Group Co., Ltd*) (formerly known as 四川金宇汽車城(集團)股份有限公司 (Sichuan Jinyu Automobile City (Group) Co., Ltd.*)) (a company established in the PRC with limited liability whose shares are listed on the Shenzhen Stock Exchange (Stock Code: SZ.000803)), an associate owned as to 24.72% by the Group and was principally engaged in the organic waste hazard-free treatment and high-value resource utilisation business, the clean heat supply business and the energy performance contracting business; and (ii) the Group's investment in 北控城投控股集團有限公司 (Beijing Enterprises City Investment Holdings Group Co., Ltd.*), an associate owned as to 15% by the Group and was principally engaged in the investment, development and operation of infrastructural and properties-related businesses in the PRC.

2.13 Other non-current assets

It represented materials and equipment sold and delivered to independent third parties for the development of photovoltaic and wind power plant projects.

2.14 Contract assets

Contract assets as at 31 December 2020 of approximately HK$3,477.6 million (2019: approximately HK$5,376.2 million) represented (i) gross receivables of approximately HK$1,270.5 million (2019: approximately HK$1,482.9 million) mainly arising from the provision of engineering, procurement and construction services for clean energy projects; (ii) gross receivables of approximately HK$2,244.0 million (2019: approximately HK$3,923.6 million) in relation to the central government renewable energy subsidy for photovoltaic and wind power plant projects that will be billed and settled upon registering into the Project List; and (iii) loss allowances of contract assets of approximately HK$36.9 million (2019: approximately HK$30.3 million). The decrease in contract assets was mainly attributable to the increase in the clean energy projects registered into the Project List during the year.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.15 Trade and bills receivables

Trade and bills receivables of approximately HK$7,057.9 million (2019: approximately HK$4,203.5 million) as at 31 December 2020 were mainly comprised (i) gross receivables from the sale of electricity of the photovoltaic and wind power plant projects of approximately HK$4,851.7 million (2019: approximately HK$1,260.7 million); (ii) gross receivables from the provision of engineering, procurement and construction services for clean energy businesses of approximately HK$1,460.0 million (2019: approximately HK$2,307.6 million); and (iii) loss allowances of trade and bills receivables of approximately HK$35.8 million (2019: approximately HK$39.4 million).

As at 31 December 2020, gross trade receivables for the sale of electricity of the photovoltaic and wind power plant projects mainly comprised (i) receivables of approximately HK$380.7 million (2019: approximately HK$345.3 million) from the sale of electricity mainly to State Grid Corporation, a state-owned enterprise principally engaged in the development and operation of nationwide power network; and (ii) receivables of approximately HK$4,421.7 million (2019: approximately HK$805.6 million) in relation to the central government renewable energy subsidy for photovoltaic and wind power plant projects that have been registered into the Project List.

2.16 Prepayments, deposits and other receivables, and other tax recoverables

The decrease in prepayments, deposits and other receivables and other tax recoverables by approximately HK$266.7 million in aggregate (non-current portion increased by approximately HK$133.7 million and current portion decreased by approximately HK$400.4 million in aggregate respectively) to approximately HK$10,074.9 million (2019: approximately HK$10,341.7 million) in aggregate was mainly attributable to (i) the decreases in prepayments, deposits and other receivables for the acquisition and development of clean energy projects; and (ii) the decrease in the input value-added-tax recoverables arising from the acquisition and development of clean energy projects.

2.17 Cash and cash equivalents

The decrease in cash and cash equivalents by approximately HK$1,177.3 million to approximately HK$2,521.5 million (2019: approximately HK$3,698.8 million) was mainly attributable to net effect of (i) net increase in the corporate bonds and bank borrowings; (ii) cash outflow on developing, acquiring and operating clean energy projects; and (iii) receipts of trade and bills receivables during the year.

2.18 Trade and bills payables

Trade and bills payables of approximately HK$5,898.1 million (2019: approximately HK$5,563.5 million) mainly represented trade and bills payables in relation to the provision of engineering, procurement and construction services for the development of clean energy projects.

2.19 Other payables and accruals

Other payables and accruals of approximately HK$4,208.2 million (2019: approximately HK$5,107.6 million) decreased by approximately HK$899.4 million, which was mainly due to the net effect of (i) increase in construction and equipment payables to contractors and suppliers in relation to the projects held by the Group; and (ii) settlement of the construction and equipment payable of projects acquired or under development by the Group during the year.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.20 Other non-current liabilities

Other non-current liabilities comprised (a) deferred income of approximately HK$943.5 million (2019: approximately HK$741.1 million) arising from the materials and equipment sold and delivered to independent third parties for the development of photovoltaic and wind power plant projects; and (b) a financial liability of approximately HK$1,404.3 million (2019: HK$671.1 million) mainly arising from an option granted to the Ping An Entities and the Second Investors (as hereinafter defined under the section headed "2.23 Liquidity and financial resources – (d) Capital contribution" in "Management Discussion and Analysis"). Further details of the option are set out in the Company's announcements dated 27 December 2019, 30 July 2020 and the circular dated 24 December 2020.

2.21 Interest-bearing bank loans and other borrowings and corporate bonds excluding operating lease

Interest-bearing bank loans and other borrowings and corporate bonds, of approximately HK$29,661.3 million (2019: approximately HK$27,599.8 million) in aggregate increased by approximately HK$2,061.5 million in aggregate (non-current portion and current portion increased by approximately HK$1,692.1 million and approximately HK$369.4 million in aggregate respectively), which was mainly attributable to the net effect of (i) the drawdown of bank borrowings for the development of the clean energy businesses; (ii) the issue of the Second Corporate Bond (as hereinafter defined); and (iii) the repayment of bank loans and other borrowings during the year.

2.22 Capital expenditures

During the year ended 31 December 2020, the Group's total capital expenditures amounted to approximately HK$4,816.8 million (2019: approximately HK$3,928.3 million), comprising (i) development of photovoltaic and wind power plant projects, clean heat supply projects, and other property, plant and equipment of approximately HK$2,004.1 million (2019: approximately HK$3,274.0 million) in aggregate; (ii) acquisition of other intangible assets of approximately HK$1.1 million (2019: approximately HK$1.5 million); and (iii) investments in and acquisition of equity interests in subsidiaries, joint ventures and associates of approximately HK$2,811.6 million (2019: approximately HK$652.8 million).

2.23 Liquidity and financial resources

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

As at 31 December 2020, the Group's cash and cash equivalents amounted to approximately HK$2,521.5 million (2019: approximately HK$3,698.8 million).

Developments of the clean energy businesses require material initial capital investments and the Group funds such developments during the year mainly by (i) long-term bank loans and other borrowings; (ii) perpetual capital instrument; (iii) corporate bonds; and (iv) capital contribution(s) as illustrated below.

Management Discussion and Analysis

31 December 2020

2. FINANCIAL PERFORMANCE (CONTINUED)

2.23 Liquidity and financial resources (Continued)

(a) Long-term bank loans and other borrowings and corporate bonds excluding operating lease

As at 31 December 2020, the Group's total borrowings of approximately HK$29,661.3 million (2019: approximately HK$27,599.8 million) comprised (i) bank borrowings of approximately HK$13,527.8 million (2019: approximately HK$12,167.9 million); (ii) corporate bonds of approximately HK$1,696.3 million (2019: HK$557.0 million) and (iii) lease liabilities under finance lease arrangements and other loans of approximately HK$14,437.2 million (2019: approximately HK$14,874.9 million). 79% (2019: 79%) of the Group's borrowings are long-term borrowings.

(b) Perpetual capital instrument

On 27 November 2018, the Company issued perpetual capital instrument (the "Perpetual Capital Instrument") with an aggregate principal amount of RMB1,000,000,000 for the purposes of repaying certain of the Group's indebtedness and the Group's general working capital. It was the first corporate green panda perpetual capital instrument issued in the PRC and the first perpetual capital instrument issued by the Group. In January 2019, the Company was awarded as one of the "Outstanding Fixed Income Product Issuers" by the Shenzhen Stock Exchange. Net proceeds after deducting issue expenses amounted to RMB997,000,000. There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the Company subject to certain conditions. The Perpetual Capital Instrument is classified as equity instruments. During the year ended 31 December 2020, distributions of RMB65,000,000 (2019: RMB65,000,000) was declared and paid to the holders of the Perpetual Capital Instrument.

(c) Corporate bonds

During the year ended 31 December 2020, a corporate bond (the "Second Corporate Bond") with an aggregate principal amount of RMB900,000,000 was issued by the Company to certain institutional investors on 29 April 2020, bearing interest at a rate of 5.50% per annum. The Second Corporate Bond is unsecured and repayable on 29 April 2023. One year prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of the Second Corporate Bond and the bond holders shall be entitled to sell back the Second Corporate Bond to the Company. Further details of the Second Corporate Bond are set out in the Company's announcement dated 30 April 2020.

A corporate bond (the "First Corporate Bond") with an aggregate principal amount of RMB500,000,000 was issued by the Company to certain institutional investors on 6 December 2019, bearing interest at a rate of 5.99% per annum, for the purposes of capital injections to the project companies and repaying certain of the Group's indebtedness. The First Corporate Bond is unsecured and repayable on 6 December 2022. One year prior to the maturity pursuant to the terms and conditions in the subscription agreement of the First Corporate Bond, the Company shall be entitled to adjust the coupon rate of the First Corporate Bond and the bond holders shall be entitled to sell back the First Corporate Bond to the Company. Further details of the First Corporate Bond are set out in the Company's announcement dated 6 December 2019.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.23 Liquidity and financial resources (Continued)

(d) Capital contribution

Subsequent to the capital contribution in 天津北清電力智慧能源有限公司 (Tianjin Beiqing Electric Smart Energy Co., Ltd.*) (formerly known as 北清清潔能源投資有限公司 (Beiqing Clean Energy Investment Company Limited*)) (the "Target Company" or "Beiqing Smart") in the aggregate amount of RMB600 million (the "First Capital Increase") by 天津市平安消費科技投資合夥企業(有限合夥)(Tianjin Ping An Consumption Technology Investment Partnership Enterprise (Limited Partnership)*), 嘉興智精投資合夥企業(有限合夥)(Jiaxing Zhijing Investment Partnership Enterprise (Limited Partnership)*), 嘉興智精恒錦投資合夥企業(有限合夥)(Jiaxing Zhijing Hengjin Investment Partnership Enterprise (Limited Partnership)*) and 嘉興智精恒睿投資合夥企業(有限合夥)(Jiaxing Zhijing Hengrui Investment Partnership Enterprise (Limited Partnership)*) (collectively referred to as the "Ping An Entities") in December 2019, on 30 July 2020, the Company, Harvest Sunny International Limited ("Harvest Sunny") and Beiqing Smart, both being subsidiaries of the Company, entered into a capital contribution agreement with 深圳市海匯全贏投資諮詢合夥企業(有限合夥)(Shenzhen Haihui Quanying Investment Consulting Partnership Enterprise (Limited Partnership)*) and 啟鷺(廈門)股權投資合夥企業(有限合夥)(Qilu (Xiamen) Equity Investment Partnership Enterprise (Limited Partnership)*) (the "Second Investors"), pursuant to which the Second Investors agreed to contribute new capital in the aggregate amount of RMB400 million in return for approximately 4.30% of the enlarged capital of the Target Company (the "Second Capital Increase").

Completion of the Second Capital Increase took place on 11 September 2020. Immediately following the completion of Second Capital Increase, Beiqing Smart was held as to approximately 89.25% by Harvest Sunny and would continue to be accounted as a subsidiary of the Company. Both the First Capital Increase and the Second Capital Increase constitute deemed disposals by the Company of its interests in Beiqing Smart under Chapter 14 of the Listing Rules. Further details are set out in the Company's announcements dated 27 December 2019, 30 July 2020 and 15 September 2020 and the circular dated 24 December 2020.

As majority of the funding derives from equity fundings from shareholders in prior years, long-term borrowings, the Perpetual Capital Instrument and the corporate bonds, the Group recorded net current assets position of approximately HK$1,049.3 million (2019: approximately HK$1,606.4 million) as at 31 December 2020.

The Group obtains certain unutilised banking facilities to enable higher flexibility and stability on capital management. As at the date of this report, the Group had unutilised banking facilities of approximately HK$5,929.8 million (2019: approximately HK$2,429.0 million) in aggregate with terms ranging from repayable on demand to 15 years (2019: ranging from repayable on demand to 15 years).

The Group's net gearing ratio, which was calculated by dividing net debt (defined as the corporate bonds, bank loans and other borrowings, net of cash and cash equivalents) by the sum of net debt and total equity, was 67% (2019: 68%) as at 31 December 2020. The decrease in net gearing ratio was mainly due to the net effect of (i) the issue of the Second Corporate Bond for the purpose of funding the development of the clean energy businesses; (ii) the increase in bank borrowings for the purpose of funding the development of the clean energy businesses; and (iii) the profit attributable to the equity holders of the Company during the year.

CHARGE ON THE GROUP'S ASSETS

The secured bank loans and other borrowings and bills payables of the Group as at 31 December 2020 are secured by:

(i) pledges over certain of the Group's property, plant and equipment and operating concessions;

(ii) pledges over certain of the Group's trade receivables;

(iii) pledges over the Group's equity interests in certain subsidiaries;

(iv) guarantees given by the Company and/or its subsidiaries; and/or

(v) pledges over certain of the Group's bank balances.

Save as disclosed above, at 31 December 2020, the Group did not have any charges on the Group's assets.

CONTINGENT LIABILITIES

As at the end of the reporting period, the Group did not have any significant contingent liabilities (2019: Nil).

FOREIGN EXCHANGE EXPOSURE

Majority of the subsidiaries of the Company operate in the PRC with most of the transactions denominated and settled in RMB. Fluctuations of exchange rates would impact the Group's net asset value due to currency translation in the preparation of the Group's consolidated accounts. If RMB appreciates/depreciates against HK$, the Group would record a(n) increase/decrease in the Group's net asset value. During the year ended 31 December 2020, the Group has not used derivative financial instruments to hedge against its foreign currency risk.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group employed 2,041 employees (2019: 2,059 employees) with total staff cost of approximately HK$221.4 million incurred for the year ended 31 December 2020 (2019: approximately HK$369.5 million). The Group's remuneration packages are generally structured with reference to market terms and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

(a) On 22 January 2020, Beiqing Smart, a non-wholly owned subsidiary of the Company, and 江蘇江南水務股份有限公司 (Jiangsu Jiangnan Water Co., Ltd.*) (as limited partners) and 西藏禹澤投資管理有限公司 (Tibet Yuze Investment Management Co., Limited*), a joint venture of the Company (as general partner and executive partner) entered into a partnership agreement in respect of the formation of a limited partnership, namely 江陰北控禹澄環境產業投資合夥企業(有限合夥) (Jiangyin Beikong Yucheng Environmental Industry Investment Partnership Enterprise (Limited Partnership)*) at the total maximum capital contribution of RMB400,100,000. Among which, the maximum capital contribution of Beiqing Smart in this limited partnership is RMB200,000,000 (representing approximately 49.99% interest in the limited partnership). Further details of the formation of the limited partnership are set out in the Company's announcement dated 22 January 2020.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

(b) On 8 May 2020, TJCE, a non-wholly owned subsidiary of the Company (as vendor) and SDIC Power (as purchaser) entered into two equity transfer agreements with XSHN and XSYN, respectively, pursuant to which TJCE agreed to sell, and SDIC Power agreed to acquire, the entire equity interest of XSHN and XSYN at a total consideration of RMB438,000,000 and RMB100,000,000, respectively. The completion took place on 28 May 2020. Upon completion of the Disposals, XSHN and XSYN ceased to be non-wholly owned subsidiaries of the Company and their financial results are no longer consolidated in the Group's financial statements. Further details of the Disposals are set out in the Company's announcement dated 8 May 2020 and the circular dated 24 July 2020.

(c) On 16 July 2020, (i) 信達資本管理有限公司 (Cinda Capital Management Co., Ltd.*) and 延安振興發展產業投資基金管理有限公司 (Yanan Zhenxing Development Industry Investment Fund Management Co., Ltd.*) (collectively, the "General Partners") and Beiqing Smart and 中國信達資產管理股份有限公司 (China Cinda Asset Management Co., Ltd.*) (collectively, the "Limited Partners") entered into the partnership agreement (the "Partnership Agreement") in respect of, among other things, the formation and management of 延發北控信能（天津）股權投資合夥企業（有限合夥）(Yanfa Beikong Xinneng (Tianjin) Equity Investment Partnership Enterprise (Limited Partnership)*) (the "Fund"); and (ii) the General Partners and the Limited Partners entered into the supplemental agreement to the Partnership Agreement in relation to, among other things, the proposed investment of the Fund. Further details of the formation of the Fund are set out in the Company's announcement dated 16 July 2020.

(d) On 30 July 2020, the Company, Harvest Sunny and Beiqing Smart, both being subsidiaries of the Company, entered into a capital contribution agreement with the Second Investors, pursuant to which the Second Investors agreed to contribute new capital in the aggregate amount of RMB400 million in return for approximately 4.30% of the enlarged capital of Beiqing Smart.

Immediately following the completion of Second Capital Increase, Beiqing Smart was held as to approximately 89.25% by Harvest Sunny. Beiqing Smart would continue to be accounted as a subsidiary of the Company. The Second Capital Increase constitutes a deemed disposal by the Company of its interests in Beiqing Smart. Further details are set out in the Company's announcement dated 30 July 2020 and the circular dated 24 December 2020.

Save as disclosed above, there were no significant investments, material acquisition and disposal of subsidiaries, associated companies and joint ventures by the Group for the year ended 31 December 2020.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Fluctuation in currency exchange rates

The Group primarily operates its businesses in the PRC and most of its transactions are mainly denominated in RMB. The value of RMB against HK$ and other currencies may fluctuate and is affected by, among others, changes in the economic conditions and policies. The conversion of RMB into foreign currencies, including HK$, has been based on rates as promulgated by the People's Bank of China. The Group monitors foreign exchange exposures and takes appropriate measures to mitigate and manage the risk on a timely and effective manner by, including but not limited to, raising debt financing denominated in RMB to match the currency of operating cash flows.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Liquidity risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due. During the year, the Group steadily expanded the clean energy businesses, which require material funding in investment and development stages. In managing the liquidity risk, the Group, among others, (i) obtains long-term bank loans and other borrowings, issues perpetual capital instrument and corporate bond and introduced strategic capital investments in a subsidiary as detailed under the section headed "2.23 Liquidity and financial resources" in "Management Discussion and Analysis"; (ii) monitors and maintains an adequate level of cash and credit facilities; and (iii) timely monitors the settlements of receivables.

Policy risks

The Group's clean energy businesses are dependent on the relevant governmental support measures (including the preferential tax policies, subsidies and government grants, electricity generation dispatch priority, laws and regulations, etc.) for steady and healthy development. Although the Chinese government has been supportive to the growth of the clean energy businesses, it is possible that the existing governmental support measures will be modified. The Group will strictly cohere to the government measures and will closely monitor the policy planning to grasp the business opportunities and get understanding on the risks associated with the policy modifications in advance.

Other business risks

The risks and uncertainties on the Group's clean energy businesses, in particular the Photovoltaic Power Business and the Wind Power Business, also comprise (i) the risks on project performance; and (ii) grid curtailment risks. If any of these risks and uncertainties materialise, overall growth and profitability would be affected. In mitigating the risks on project performance, the Group places significant emphasis on, among others, (i) implementing effective investment due diligence, approval and review processes; (ii) monitoring and controlling the quality and performance of its assets and businesses; (iii) human capital and technical strengths; and (iv) relationships with customers and suppliers, in order to facilitate the positive development of these businesses. On the other hand, in mitigating the curtailment risks, the Group strategically focuses on developing the Photovoltaic Power Business and the Wind Power Business in regions which are well-developed with power transmission network and with stronger economy and electricity demand, and in general do not have curtailment issue.

CORPORATE SOCIAL RESPONSIBILITY

Environmental policies and performance

The Group is dedicated to preserve environmental sustainability and combat climate change by strategically expanding into the Photovoltaic Power Business, the Wind Power Business, the Clean Heat Supply Business and other clean energy businesses, which offer clean energy and make valuable contributions to the widespread use of renewable energy. The Group is also committed to sustainable development of the environment, minimising the environmental impact of its operations by reinforcing environmental awareness and implementing measures for the responsible use of resources, energy saving and waste management.

Compliance with relevant laws and regulations

During the year, as far as the Group is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

Relationship with stakeholders

The Group recognises that stakeholders including employees, shareholders and investors, customers, suppliers and contractors, government entities, industry partners and community partners are the key to corporate sustainability and is keen on developing long-term relationships with these stakeholders. Some examples on supporting and communicating with the stakeholders include:

(a)	Employees	:	The Company adheres to the core values of "being responsible, having values and being sharing" and places significant emphasis on human capital and strives to foster an environment in which the employees can develop to their fullest potential and can assist their personal and professional growth. The Company provides a fair and safe workplace, promotes diversity to our staff, and provides competitive remuneration packages, benefits and career development opportunities based on their merits and, performance. The Group also puts on-going efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfilment in their positions.
(b)	Shareholders and investors	:	Details of which are set out in the section headed "Investor Relations – Communication with shareholders" in the "Corporate Governance Report" of this annual report.
(c)	Customers	:	The Group understands that it is important to maintain good relationship with customers and provide products in a way that satisfy their needs and requirements. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the products so that the Group can respond proactively. The Group has also established procedures for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner.
(d)	Suppliers and contractors	:	The Group is dedicated to develop good relationship with suppliers and contractors as long-term business partners to ensure stable supply of materials and timely delivery of construction works. We reinforce business partnerships with suppliers and contractors by on-going communication in a proactive and effective manner so as to ensure quality and timely delivery.

Environmental, social and governance report

Further details of the Group's commitment and strategies to sustainability and the performance in environmental contributions, employee relations, supply chain management, occupational health and safety and social investments of the core businesses of the Group for the year ended 31 December 2020 are set out in the Group's Environmental, Social and Governance Report for the year ended 31 December 2020, which will be published on the websites of the Company (www.bece.com.hk) and the Stock Exchange (www.hkexnews.hk) before the end of July 2021.

* *For identification purposes only*

Management discussion and analysis of the results of the Target Company for the six months ended 30 June 2021

Management Discussion and Analysis

1. BUSINESS REVIEW

During the six months ended 30 June 2021, the Group was principally engaged in the investment, development, construction, operation and management of photovoltaic power businesses (the "Photovoltaic Power Business"), wind power businesses (the "Wind Power Business") and clean heat supply businesses (the "Clean Heat Supply Business") in the PRC.

Financial highlights:

	For the six months ended 30 June		
	2021 (unaudited) HK$'000	2020 (unaudited) HK$'000	Change %
Revenue	**3,019,152**	2,285,001	32
Gross profit	**1,495,842**	1,251,086	20
Gross profit ratio (%)	**49.5**	54.8	(5.3)
Profit for the period	**504,332**	406,715	24
Profit attributable to the equity holders of the Company	**340,347**	334,527	2
Basic EPS (in HK cent(s))	**0.47**	0.47	–
EBITDA	**2,140,766**	1,725,922	24

	30 June 2021 (unaudited) HK$'000	31 December 2020 (audited) HK$'000	Change %
Total assets	**58,860,767**	57,127,247	3
Total equity	**13,650,110**	13,124,890	4
Cash and cash equivalents	**2,374,039**	2,521,536	(6)

During the six months ended 30 June 2021, the coronavirus disease 2019 (COVID-19) pandemic continued to affect the global economies. Under the strong leadership of the CPC Central Committee with General Secretary Xi Jinping at its core, major strategic results have been achieved in the prevention and control of the pandemic, and thus China was not severely affected by the COVID-19 pandemic and the relevant confirmed cases were kept at low levels. While taking the pandemic prevention and control as part of new normal, more industry-related favourable policies were introduced in China to accelerate the clean and efficient use of fossil energy, and vigorously promoted non-fossil energy to continuously increase the proportion of clean energy consumption and to promote the transformation of environmentally friendly and low-carbon production of energy.

1. BUSINESS REVIEW *(Continued)*

Generally speaking, the pandemic had a relatively minor impact on the industries of the Group compared to other industries. As a clean energy project owner and operator, the Group was not affected by the economic adversity caused by the pandemic. The revenue contribution from the sale of electricity and entrusted operations businesses continued to be stable. In the first half of 2021, the power generation of the Group on a consolidated basis amounted to approximately 2.6 million megawatt-hour ("MWh") (six months ended 30 June 2020: approximately 1.9 million MWh), representing an increase of approximately 36.4% compared with the corresponding period of 2020. The aggregate operating power generation[#] of the projects held and/or managed by the Group, the associates and the joint ventures of the Group for the first half of 2021 was approximately 3.1 million MWh (six months ended 30 June 2020: approximately 2.5 million MWh), representing an increase of approximately 23.4% compared with the corresponding period of 2020.

The Group's revenue and business structure have been successfully optimised by focusing on the power generation business with stronger sustainability, driving quality and efficiency enhancement of its existing projects, implementing cost reduction and efficiency enhancement by achieving further optimisation of its business mix in an active move to advance business structure with an objective to improve the Group's overall performance.

Profit for the period of the Group was approximately HK$504.3 million (six months ended 30 June 2020: approximately HK$406.7 million), representing an increase of approximately 24% as compared to the corresponding period of last year. Profit attributable to the equity holders of the Company was approximately HK$340.3 million (six months ended 30 June 2020: approximately HK$334.5 million), representing an increase of approximately 2% as compared to the corresponding period of last year.

Further details of the discussion of financial performance are set out in the section headed "2. Financial Performance" in "Management Discussion and Analysis". Analysis of the business performance is set out below.

1.1 Sale of Electricity and Entrusted Operations

During the period, the Group steadily developed its operating capacity through the investment, development, construction, operation and management of clean energy power plant projects, and the aggregate revenue in respect of the sale of electricity and the provision of entrusted management services amounted to approximately HK$2,180.1 million (six months ended 30 June 2020: approximately HK$1,711.9 million), representing an increase of approximately 27% as compared to the corresponding period of last year.

Pursuant to the "Notice on Relevant Review Work on the Projects List of Renewable Energy Power Generation Subsidies*"（《關於開展可再生能源發電補貼項目清單審核有關工作的通知》） announced by the Ministry of Finance in the first half of 2020, the rules for settlement of additional subsidies for renewable energy electricity prices as well as the conditions and application procedures for entering the list of National Renewable Energy Power Generation Subsidies for the renewable energy power generation projects (the "Project List") were further clarified. In addition, the "Notice on the Acceleration of Relevant Review Work on the Projects List of Renewable Energy Power Generation Subsidies*"（《關於加快推進可再生能源發電補貼項目清單審核有關工作的通知》） issued by the Ministry of Finance in the second half of 2020, emphasises acceleration of review on existing renewable energy power generation projects, make sure that those projects should enter the Project List in batches as soon as possible.

[#] The operating power generation included (i) the power generation of the projects held by the Group, the associates and the joint ventures of the Group; and (ii) the power generation of the projects managed by the Group through the provision of entrusted management services.

Management Discussion and Analysis

1. BUSINESS REVIEW *(Continued)*

1.1 Sale of Electricity and Entrusted Operations *(Continued)*

As at 30 June 2021, the Group has several photovoltaic and wind power plants with aggregated capacity of approximately 2,850 megawatt ("MW") successfully enlisted in the Project List, representing over 80% of the Group's current on-grid capacity. The Directors expect that the remaining projects of the Group will receive the review approval and be enrolled in the Project List within 2021 and coming future. The above notices show that the government is doing its best to solve the problem of arrears in subsidies for renewable energy power generation projects, which is beneficial to the betterment of the Group's cash flow. The Group will closely monitor and implement remaining project inventory declaration and national subsidies related works and will proactively promote the implementation of relevant strategies to improve the receipt of national subsidies.

In May 2021, the National Energy Administration ("NEA") issued the "Notice on Relevant Matters of the Development and Construction of Wind Power and Photovoltaic Power Generation in 2021*" (《關於2021年風電、光伏發電開發建設有關事項的通知》), which clarified that the national wind power and photovoltaic power generation as a percentage to the total electricity consumption of the society will reach approximately 11% in 2021, and will increase year by year thereafter to ensure that non-fossil energy consumption as a percentage to primary energy consumption will reach approximately 20% in 2025. Newly guaranteed on-grid capacity shall not be lower than 90 million kilowatt in 2021. In May 2021, the Ministry of Ecology and Environment promulgated the "Administrative Rules for the Registration of Carbon Emissions Rights (Trial)*" (《碳排放權登記管理規則(試行)》), the "Administrative Rules for the Trading of Carbon Emissions Rights (Trial)*" (《碳排放權交易管理規則(試行)》) and the "Administrative Rules for the Settlement of Carbon Emissions Rights (Trial)*" (《碳排放權結算管理規則(試行)》) to promote the official launch of the national carbon emissions rights trading market in July 2021.

Going forward, the Group will actively promote the development of wind power and photovoltaic power grid parity projects, at the same time, seize the opportunity to participate in carbon emissions trading market. The Directors believe that the wind power and photovoltaic power industries have entered into a marketised stage free of reliance on tariff adjustments, and the stability and predictability of the cash flow of the wind power and photovoltaic power projects in the future will be greatly enhanced. At the same time, the Group attaches great importance to the new opportunities brought by the carbon emissions rights trading market. The Group is engaged in clean energy power generation and achieves low carbon emissions during the power generation process. The Group considers implementing effective carbon asset management with an aim of taking the lead in energy conservation and emissions reduction and maximizing the carbon assets in hand to enhance corporate benefits.

1.1.1 Photovoltaic Power Plant Projects

(a) Scale and performance of the centralised photovoltaic power plant projects

During the period, the Group's centralised photovoltaic power business operated steadily. The Group recorded revenue of approximately HK$1,299.8 million (six months ended 30 June 2020: approximately HK$1,234.2 million) from the sale of electricity from the Group's centralised photovoltaic power plants, representing approximately 43% (six months ended 30 June 2020: approximately 54%) of the Group's total revenue during the period.

1. BUSINESS REVIEW *(Continued)*

1.1 Sale of Electricity and Entrusted Operations *(Continued)*

1.1.1 Photovoltaic Power Plant Projects *(Continued)*

(a) Scale and performance of the centralised photovoltaic power plant projects *(Continued)*

As at 30 June 2021, 50 (30 June 2020: 50) centralised photovoltaic power plants covering 12 provinces, 1 municipality and 2 autonomous regions in the PRC and 1 (30 June 2020: 1) centralised photovoltaic power plant in Whyalla, Southern Australia, Australia were held by the Group and in operation, and the aggregate on-grid capacity of these photovoltaic power plants reached 2,241MW (30 June 2020: 2,143MW), details of which are set forth below:

		For the six months ended 30 June					
		2021			2020		
Location	Photovoltaic resource area	**Number of plants**	**Approximate total on-grid capacity (MW)**	**Approximate aggregate power generation (note 1) (MWh)**	Number of plants	Approximate total on-grid capacity (MW)	Approximate aggregate power generation (note 1) (MWh)
PRC–Subsidiaries:							
Hebei Province	II/III	**16**	**574**	**393,070**	16	476	324,677
Henan Province	III	**3**	**264**	**180,550**	3	264	180,259
Shandong Province	III	**5**	**248**	**165,376**	5	248	164,765
Guizhou Province	III	**4**	**211**	**99,348**	4	211	114,172
Anhui Province	III	**6**	**191**	**110,976**	6	191	107,318
Shaanxi Province	II	**2**	**160**	**123,189**	2	160	133,955
Jiangxi Province	III	**3**	**125**	**57,998**	3	125	60,896
Jiangsu Province *(note 2)*	III	**1**	**100**	**71,846**	1	100	117,665
The Ningxia Hui Autonomous Region	I	**1**	**100**	**71,475**	1	100	79,270
Hubei Province	III	**2**	**43**	**19,572**	2	43	21,347
Jilin Province	II	**1**	**30**	**24,411**	1	30	24,610
The Tibet Autonomous Region	III	**1**	**30**	**21,366**	1	30	18,797
Tianjin Municipality	II	**1**	**30**	**22,138**	1	30	23,768
Yunnan Province	II	**1**	**22**	**17,036**	1	22	17,062
Shanxi Province	III	**1**	**20**	**15,696**	1	20	14,901
		48	**2,148**	**1,394,047**	48	2,050	1,403,462
PRC–Joint ventures:							
Anhui Province	III	**1**	**60**	**39,548**	1	60	37,125
Hubei Province	III	**1**	**27**	**14,332**	1	27	15,022
		2	**87**	**53,880**	2	87	52,147
PRC–Sub-total		**50**	**2,235**	**1,447,927**	50	2,137	1,455,609
Overseas–Subsidiary:							
Whyalla, Southern Australia, Australia	N/A	**1**	**6**	**3,287**	1	6	4,038
Total		**51**	**2,241**	**1,451,214**	51	2,143	1,459,647

Management Discussion and Analysis

1. BUSINESS REVIEW *(Continued)*

1.1 Sale of Electricity and Entrusted Operations *(Continued)*

1.1.1 Photovoltaic Power Plant Projects *(Continued)*

(a) Scale and performance of the centralised photovoltaic power plant projects *(Continued)*

Most of the Group's projects in the PRC were situated in photovoltaic resource areas II and III as promulgated by the National Development and Reform Commission of the PRC (the "NDRC"), locations considered by the management to be favourable for the development of the Group's Photovoltaic Power Business. Set out below the projects analysis by photovoltaic resource areas:

	For the six months ended 30 June					
	2021			2020		
Photovoltaic resource area	Number of Plants	Approximate total on-grid capacity (MW)	Approximate aggregate power generation (note 1) (MWh)	Number of Plants	Approximate total on-grid capacity (MW)	Approximate aggregate power generation (note 1) (MWh)
PRC–Subsidiaries:						
I	1	100	71,475	1	100	79,270
II	12	448	343,171	12	448	362,324
III	35	1,600	979,401	35	1,502	961,868
	48	2,148	1,394,047	48	2,050	1,403,462
PRC–Joint ventures:						
III	2	87	53,880	2	87	52,147
Total	50	2,235	1,447,927	50	2,137	1,455,609

Note 1: It represented the approximate aggregate power generation of the projects from the later of (i) the dates of acquisition by the Group; (ii) the dates of commencement of operation; and (iii) the beginning of the respective reporting periods, to the end of the respective reporting periods. Therefore, the above aggregate power generation does not reflect a full period performance of these operations.

Note 2: On 8 May 2020, (i) the equity transfer agreement was entered into by and among 天津富歡企業管理諮詢有限公司 (Tianjin Clean Energy Investment Company Limited*) ("TJCE"), 國投電力控股股份有限公司 (SDIC Power Holdings Co., Ltd.*) ("SDIC Power") and 響水恒能太陽能發電有限公司 (Xiangshui Hengneng Photovoltaic Power Co., Ltd.*) ("XSHN"), in relation to the disposal of the entire equity interest of XSHN at a total consideration of RMB438,000,000; and (ii) the equity transfer agreement was entered into by and among TJCE, SDIC Power and 響水永能太陽能發電有限公司 (Xiangshui Yongneng Photovoltaic Power Co., Ltd.*) ("XSYN"), in relation to the disposal of the entire equity interest of XSYN at a total consideration of RMB100,000,000 (the "Disposals").

Upon completion of the Disposals on 28 May 2020, XSHN and XSYN ceased to be subsidiaries of the Group. Further details of the Disposals are set out in the Company's announcement dated 8 May 2020 and the Company's circular dated 24 July 2020.

Note 3: During the period ended 30 June 2021, the average unit selling price (excluding value-added tax) per kilowatt-hour of the above projects located in the PRC was approximately RMB0.75.

1. BUSINESS REVIEW *(Continued)*

1.1 Sale of Electricity and Entrusted Operations *(Continued)*

1.1.1 Photovoltaic Power Plant Projects *(Continued)*

(b) Scale of the centralised photovoltaic power plant projects registered in the Project List

As at 30 June 2021, the Group's aggregate installed capacity of the centralised photovoltaic power plants registered into the Project List reached approximately 1,850MW (31 December 2020: approximately 1,300MW). The remaining centralised photovoltaic power plant projects of the Group are pending from the review approval to enroll in the Project List. The Group will continue its effort on enrolling the remaining centralised photovoltaic power plant projects into the Project List. The Directors expect that the remaining projects of the Group will receive the review approval and be enrolled in the Project List within 2021 and coming future.

(c) Key performance data of the centralised photovoltaic power plant projects held by the Group and in operation on or before the beginning of the reporting period

	For the six months ended 30 June		
	2021	2020	Changes
Weighted average curtailment ratio (%)	**3.13**	3.07	0.06
Weighted average utilisation hours (hours)	**650**	674	(24)

During the period, the weighted average utilisation hours reached 650 hours, which was close to the national average utilisation hours of photovoltaic power in the PRC of 660 hours. The slight increase of weighted average curtailment ratio noted during the period as compared to the corresponding period of last year was mainly attributable to the increase of curtailment ratio of the projects located in Guizhou Province.

1. BUSINESS REVIEW *(Continued)*

1.1 Sale of Electricity and Entrusted Operations *(Continued)*

1.1.1 Photovoltaic Power Plant Projects *(Continued)*

(d) Scale and performance of the distributed photovoltaic power plant projects

In respect of the distributed photovoltaic power business, as at 30 June 2021, the total installed capacity of the distributed photovoltaic power plants held and/or managed by the Group and in operation reached approximately 700MW, mainly located in photovoltaic resource area III as promulgated by the NDRC such as Henan Province, Anhui Province, Shandong Province, Jiangsu Province and Hebei Province, which included the distributed photovoltaic power stations constructed by the Group in certain water plants of Beijing Enterprises Water Group Limited of which the Group sold electricity to respective water plants. Revenue from the sale of electricity from the Group's distributed photovoltaic power plants reached approximately HK$309.9 million during the period (six months ended 30 June 2020: approximately HK$217.5 million).

(e) Scale of the distributed photovoltaic power plant projects registered in the Project List

As at 30 June 2021, the Group's aggregate installed capacity of the distributed photovoltaic power plants registered into the Project List reached approximately 550MW (31 December 2020: reached approximately 300MW). The remaining distributed photovoltaic power plant projects of the Group are pending from the review approval to enroll in the Project List. The Group will continue its effort on enrolling the remaining distributed photovoltaic power plant projects into the Project List. The Directors expect that the remaining projects of the Group will receive the review approval and be enrolled in the Project List within 2021 and coming future.

(f) Entrusted management services

In addition to the above-mentioned sale of electricity from the Group's photovoltaic power plants, the Group provided entrusted management services for photovoltaic power plant projects in the PRC and revenue of approximately HK$11.3 million (six months ended 30 June 2020: approximately HK$54.4 million) was recognised during the period.

1. BUSINESS REVIEW *(Continued)*

1.1 Sale of Electricity and Entrusted Operations *(Continued)*

1.1.2 Wind Power Plant Projects

Under the situation and requirements of strictly controlling the total amount and intensity of traditional energy consumption and continuous improvement of the ecological environment, especially the announcement of accomplishment of "Carbon Dioxide Emissions Peak, Carbon Neutrality" goals, wind power as a green and clean energy, will become one of the main strategic energy in the PRC in the future. With the Group's expertise and professional team in, among others, investing, developing and managing wind and other clean energy power businesses, the Group is optimistic on continuously developing its Wind Power Business to contribute effort in building up a green future of the PRC.

(a) Scale and performance of the wind power plant projects

During the period, the Group's Wind Power Business expanded steadily. The Group recorded revenue of approximately HK$544.1 million (six months ended 30 June 2020: approximately HK$149.7 million) from the sale of electricity from the Group's wind power plants.

As at 30 June 2021, through self-development, joint development, acquisitions, etc., the Group's aggregate capacity of the on-grid, under-construction and approved-to-construct wind power projects reached over 1,400MW. These projects mainly located in Hebei Province, Henan Province, Shandong Province, Shanxi Province and the Inner Mongolia Autonomous Region and mainly situated in wind resource area IV as promulgated by the NDRC. Among which, 14 (30 June 2020: 8) wind power plants covering 4 provinces and 1 autonomous region in the PRC with an aggregate on-grid capacity of 606MW (30 June 2020: 225MW) were held by the Group and in operation as at 30 June 2021, which is analysed below:

		For the six months ended 30 June					
		2021			2020		
Location	Wind resource area	Number of Plants	Approximate total on-grid capacity (MW)	Approximate aggregate power generation (note 1) (MWh)	Number of Plants	Approximate total on-grid capacity (MW)	Approximate aggregate power generation (note 1) (MWh)
PRC–Subsidiaries:							
Henan Province	IV	5	171	244,722	3	58	39,578
Shandong Province	IV	3	166	242,154	1	48	59,570
The Inner Mongolia Autonomous Region	I	4	119	222,667	4	119	193,583
Hebei Province	IV	1	100	165,924	–	–	–
Shanxi Province	IV	1	50	34,424	–	–	–
Total		14	606	909,891	8	225	292,731

1. BUSINESS REVIEW *(Continued)*

1.1 Sale of Electricity and Entrusted Operations *(Continued)*

1.1.2 Wind Power Plant Projects *(Continued)*

(a) *Scale and performance of the wind power plant projects* *(Continued)*

Most of the Group's wind power plant projects in the PRC were situated in wind resource area IV as promulgated by the NDRC, locations considered by the management to be favourable for the development of the Group's Wind Power Business. Set out below the projects analysis by wind resource areas:

	For the six months ended 30 June					
	2021			2020		
Wind resource area	**Number of Plants**	**Approximate total on-grid capacity (MW)**	**Approximate aggregate power generation (note 1) (MWh)**	Number of Plants	Approximate total on-grid capacity (MW)	Approximate aggregate power generation (note 1) (MWh)
PRC–Subsidiaries:						
I	**4**	**119**	**222,667**	4	119	193,583
IV	**10**	**487**	**687,224**	4	106	99,148
Total	**14**	**606**	**909,891**	8	225	292,731

Note 1: It represented the approximate aggregate power generation of the projects from the later of (i) the dates of acquisition by the Group; (ii) the dates of commencement of operation; and (iii) the beginning of the respective reporting periods, to the end of the respective reporting periods. Therefore, the above aggregate power generation does not reflect a full period performance of these operations.

Note 2: During the period ended 30 June 2021, the average unit selling price (excluding value-added tax) per kilowatt-hour of the above projects was approximately RMB0.46.

(b) *Scale of the wind power plant projects registered in the Project List*

As at 30 June 2021, the Group's aggregate installed capacity of the wind power plants registered into the Project List reached approximately 450MW (31 December 2020: reached approximately 200MW). The remaining wind power plant projects of the Group are pending from the review approval to enroll in the Project List. The Group will continue its effort on enrolling the remaining wind power plant projects into the Project List. The Directors expect that the remaining projects of the Group will receive the review approval and be enrolled in the Project List within 2021 and coming future.

1. BUSINESS REVIEW *(Continued)*

1.1 Sale of Electricity and Entrusted Operations *(Continued)*

1.1.2 Wind Power Plant Projects *(Continued)*

(c) Key performance data of the wind power plant projects held by the Group and in operation on or before the beginning of the reporting period

	For the six months ended 30 June		
	2021	2020	Changes
Weighted average curtailment ratio (%)	**1.27**	4.91	(3.64)
Weighted average utilisation hours (hours)	**1,623**	1,541	82

During the period, the national average curtailment ratio of wind power in the PRC was 3.6% and the national wind power average utilisation hours in the PRC was 1,212 hours. The Group's wind power plant projects are mainly located in wind resource area IV as promulgated by the NDRC and therefore a relatively low weighted average curtailment ratio. The improvement of weighted average curtailment ratio during the period as compared to the corresponding period of last year was mainly attributable to more projects commenced to be operated in Henan Province and Hebei Province which are located in wind resource area IV.

(d) Entrusted management services

In addition to the above-mentioned sale of electricity from the Group's wind power plants, the Group provided entrusted management services for wind power plant projects in the PRC and revenue of approximately HK$15.0 million (six months ended 30 June 2020: approximately HK$56.1 million) was recognised during the period.

1.2 Engineering, Procurement and Construction Services, and Technical Consultancy Services

The Group is engaged in the provision of engineering, procurement and construction services for clean energy businesses including photovoltaic and wind power-related projects and clean heat supply projects in the PRC, and has couples of qualification and extensive experience in the design, engineering and construction of power-related projects. At the same time, the Group pays much attention to self-owned photovoltaic and wind power-related project construction, which can optimise the resource allocation during the period. Therefore, revenue of approximately HK$288.9 million (six months ended 30 June 2020: approximately HK$60.9 million) in aggregate arising from provision of engineering, procurement and construction services was recognised during the period, representing approximately 10% (six months ended 30 June 2020: approximately 3%) of the Group's total revenue during the period.

1. BUSINESS REVIEW *(Continued)*

1.2 Engineering, Procurement and Construction Services, and Technical Consultancy Services *(Continued)*

In addition, certain clean heat supply projects on a build-operate-transfer basis (the "BOT Basis") were under construction during the period. With reference to *HK(IFRIC) Interpretation 12 Service Concession Arrangements*, construction revenue of approximately HK$12.2 million (six months ended 30 June 2020: approximately HK$19.9 million) was recognised during the period with reference to the fair value of construction services delivered during the construction phase. The fair value of such services is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the inception date of the relevant service concession agreements.

In respect of the technical consultancy services, the Group successfully marketed the aforementioned qualification and experience to other industry participants. Revenue of approximately HK$23.3 million (six months ended 30 June 2020: approximately HK$28.7 million) was recognised during the period.

1.3 Provision of Clean Heat Supply Services

At the 75th session of the United Nations General Assembly, the General Secretary Xi Jinping pointed out that more forceful policies and measures to the fight against climate change will be adopted in the PRC. It aims to achieve the goal of Carbon Dioxide Emissions Peak by 2030 and the vision of Carbon Neutrality by 2060. This signifies that the PRC government is taking practical actions to enforce the Paris Agreement and is determined to implement low-carbon, safe and efficient utilisation of energy, and emission-reducing production methods. With the introduction of the "14th Five-Year Plan", China's clean heat supply policy will continue to flourish, and heat supply methods that are environmentally friendly, energy efficient, appropriate and conducive to sustainable urban development will become the future of the heat supply industry. With existing supportive government policies issued, such as the "Notice on Improving the Work Related to Heating by Renewable Energy Based on Local Conditions*" (《關於因地制宜做好可再生能源供暖相關工作的通知》) by the NEA in January 2021, which encouraged the local governments to actively support renewable energy heating projects, and the "China Energy Expected Goals in 2021*" (《2021年能源工作指導意見》) issued by the NEA in April 2021, which stated to intensify the action on clean heat supply to achieve a clean heat supply rate of 70% in the northern region in the PRC. The Clean Heat Supply Business shall have a favourable business prospects.

The Group will actively respond to national policies, seize the opportunities arising from the new round of industrial revolution, vigorously develop our clean heat supply business, continuously increase our investments in technology research and development, actively explore green, low-carbon and environmentally friendly clean heat supply methods. As at 30 June 2021, through development and business acquisition, 15 projects (30 June 2020: 17 projects) in operation with an aggregate actual clean heat supply area reached approximately 29.36 million square meters ("sq.m.") (30 June 2020: approximately 27.40 million sq.m.), representing a year-on-year increase of approximately 7.2%; and the number of heat supply services users of approximately 228,449 households (30 June 2020: approximately 220,626 households), representing a year-on-year increase of approximately 3.5%, with its projects locating in Hebei Province, Jiangsu Province, Shanxi Province, Shaanxi Province, the Ningxia Hui Autonomous Region and other provinces and autonomous regions were held and/or managed by the Group and the joint ventures of the Group through the utilisation of clean energies such as natural gas, electricity, geothermal energy, biomass energy, photovoltaic power, industrial excess heat energy, clean coal (ultra-low emission) energy, river water source, etc. Revenue of approximately HK$514.7 million (six months ended 30 June 2020: approximately HK$463.6 million) arising from the provision of clean heat supply services was recognised by the Group during the period, representing an increase of approximately 11% as compared to the corresponding period of last year.

1. BUSINESS REVIEW *(Continued)*

1.3 Provision of Clean Heat Supply Services *(Continued)*

Among them, details of actual clean heat supply area and number of heat supply services users of the projects in operation which were held and/or managed by the Group and the joint ventures of the Group are as follows:

Location	Approximate actual clean heat supply area			Approximate heat supply services users		
	30 June 2021 ('000 sq.m.)	30 June 2020 ('000 sq.m.)	Change (%)	**30 June 2021 (households)**	30 June 2020 (households)	Change (%)
North region, China	**13,949**	12,954	7.7	**109,075**	108,403	0.6
Northeast region, China	**7,707**	7,337	5.0	**76,450**	72,935	4.8
Northwest region, China	**5,879**	5,465	7.6	**28,726**	25,278	13.6
East and Central regions, China	**1,824**	1,642	11.1	**14,198**	14,010	1.3
Total	**29,359**	27,398	7.2	**228,449**	220,626	3.5

1.4 Other Clean Energy Businesses

The Group has been exploring other clean energy businesses such as multi-energy complement, hydropower, energy storage, distribution and sales of electricity, hydrogen production and other business lines, and exploring international opportunities for strategic development and diversification, with an aim to become a leading integrated clean energy service provider. During the period, the Group has also entered into strategic cooperation agreements with certain local governments and well-established enterprises, and proactively established integrated partnerships to seek joint development in the field of clean energy for the purpose of mutual benefits and complementarity.

During the period, the Group continued to proactively explore development opportunities for investment, construction and operation in the hydropower sector. As a new strategic business of the Group, the hydropower business is coordinated with other business segments. Relying on hydropower, the Group may establish energy bases which integrate the storage and transmission of wind power, photovoltaic power and hydropower, so as to deliver greater scale advantages and operating benefits, which is expected to contribute more stable income and cash flow to the Group in the future, optimises the Group's clean energy power station asset portfolio and ultimately deliver greater returns to shareholders. During the period, the Group has developed the hydropower business through different operating ways. Further details are set out in note (b) under the section headed "Significant investments, material acquisition and disposal of subsidiaries, associated companies and joint ventures".

Management Discussion and Analysis

2. FINANCIAL PERFORMANCE

2.1 Revenue and gross profit margin

The Group recorded revenue of approximately HK$3,019.2 million (six months ended 30 June 2020: approximately HK$2,285.0 million) during the period, representing an increase of approximately 32% as compared to the corresponding period of last year. For the six months ended 30 June 2021 (i) revenue from the sale of electricity and entrusted management services reached approximately HK$2,180.1 million (six months ended 30 June 2020: approximately HK$1,711.9 million) in aggregate, representing an increase of approximately 27% as compared to the corresponding period of last year; and (ii) construction services revenue was approximately HK$301.1 million (six months ended 30 June 2020: approximately HK$80.8 million), representing an increase of approximately 273% as compared to the corresponding period of last year.

	For the six months ended 30 June					
	2021			2020		
	Revenue (HK$ million)	Gross profit ratio (%)	Gross profit (HK$ million)	Revenue (HK$ million)	Gross profit ratio (%)	Gross profit (HK$ million)
Sale of electricity						
Photovoltaic Power Business	1,609.7	64.3	1,035.1	1,451.7	66.3	961.8
Wind Power Business	544.1	64.9	353.1	149.7	71.0	106.3
Construction services	301.1	19.8	59.7	80.8	17.2	13.9
Technical consultancy services	23.3	57.1	13.3	28.7	73.9	21.2
Entrusted operations	26.3	52.2	13.7	110.5	82.4	91.0
Provision of clean heat supply services	514.7	4.1	20.9	463.6	12.3	56.9
Total	3,019.2	49.5	1,495.8	2,285.0	54.8	1,251.1

Analysis of the above businesses are set out in the section headed "1. Business Review" in "Management Discussion and Analysis".

Gross profit for the sale of electricity increased from approximately HK$1,068.1 million for the six months ended 30 June 2020 to approximately HK$1,388.2 million during the period, representing approximately 93% (six months ended 30 June 2020: approximately 85%) to the total gross profit of the Group. The increase in contribution of sale of electricity to the Group's total gross profit was mainly attributable to the steady development of the Group's operating capacity of the photovoltaic and wind power plant projects. On the other hand, contribution of construction services to the Group's total gross profit was approximately 4% (six months ended 30 June 2020: approximately 1%) during the period. The overall gross profit ratio decreased from 54.8% during the six months ended 30 June 2020 to 49.5% during the period, and the total gross profit for the six months ended 30 June 2021 increased by approximately 20% compared to the same period last year.

2. FINANCIAL PERFORMANCE *(Continued)*

2.2 Other income and gains, net

The Group's other income and gains, net achieved approximately HK$119.2 million (six months ended 30 June 2020: approximately HK$111.7 million) during the period, which mainly comprised (i) interest income of approximately HK$4.1 million (six months ended 30 June 2020: approximately HK$13.2 million); (ii) government grants of approximately HK$58.3 million (six months ended 30 June 2020: approximately HK$41.8 million); and (iii) foreign exchange gains, net of approximately HK$21.6 million (six months ended 30 June 2020: foreign exchange gains, net of approximately HK$18.3 million).

2.3 Administrative expenses

The increase in administrative expenses to approximately HK$237.3 million (six months ended 30 June 2020: approximately HK$193.2 million) was mainly attributable to the increase in staff related expenses as result of the business development of the Group during the period.

2.4 Finance costs

The increase in finance costs of the Group by approximately HK$79.9 million to approximately HK$757.8 million for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately HK$677.9 million) was mainly attributable to the increase in the average balances of corporate bonds, bank loans and other borrowings of the Group as compared to the corresponding period of last year.

2.5 Income tax expense

The Group conducted its principal activities in the PRC and the relevant standard corporate income tax rate was 25%. The Group's effective tax rate was lower than the standard corporate income tax rate in the PRC as certain of the Group's operating subsidiaries enjoyed tax concession benefits during the corresponding periods.

2.6 Property, plant and equipment

Property, plant and equipment mainly represented the carrying amounts of clean energy projects held by the Group and in operation or under construction, and the increase was mainly attributable to the net effect of (i) the acquisition and development of clean energy projects; and (ii) depreciation provided for the period.

2.7 Investment properties

The Group's investment properties mainly represented the fair value of an office in Hong Kong and were leased to an independent third party.

2.8 Goodwill

It was attributable to the acquisition of subsidiaries since 2016.

2.9 Operating concessions and operating rights

Operating concessions represented the rights to operate certain photovoltaic power plants and clean heat supply projects under the BOT Basis, and operating rights represented the operating rights arising from the acquisition of clean energy businesses with reference to *HKFRS 3 (Revised) Business Combinations*. The increase in operating concessions was mainly attributable to the construction of certain clean energy projects on a BOT Basis, and the increase in operating rights was mainly attributable to the net effect of (i) the acquisition of clean energy businesses; and (ii) amortisation provided for the period.

Management Discussion and Analysis

2. FINANCIAL PERFORMANCE *(Continued)*

2.10 Investments in joint ventures

It mainly represented the capital contributions made by the Group to the limited partnerships established in the PRC and joint ventures established for conducting the clean energy businesses.

2.11 Investments in associates

It mainly represented (i) the Group's investment in 北清環能集團股份有限公司 (BECE Legend Group Co., Ltd*) (a company established in the PRC with limited liability whose shares are listed on the Shenzhen Stock Exchange (Stock Code: SZ.000803)), an associate owned as to 24.72% interest by the Group and was principally engaged in the organic waste hazard-free treatment and high-value resource utilisation business, the clean heat supply business and the energy performance contracting business; and (ii) the Group's investment in 北控城投控股集團有限公司 (Beijing Enterprises City Investment Holdings Group Co., Ltd*), an associate owned as to 15% interest by the Group and was principally engaged in the investment, development and operation of infrastructural and properties-related businesses in the PRC.

2.12 Other non-current assets

It represented materials and equipment sold and delivered to independent third parties for the development of a wind power plant project.

2.13 Contract assets

Contract assets as at 30 June 2021 of approximately HK$2,318.1 million (31 December 2020: approximately HK$3,477.6 million) represented (i) gross receivables of approximately HK$1,071.8 million (31 December 2020: approximately HK$1,270.5 million) mainly arising from the provision of engineering, procurement and construction services for clean energy projects; (ii) gross receivables of approximately HK$1,283.7 million (31 December 2020: approximately HK$2,244.0 million) in relation to the central government renewable energy subsidy for photovoltaic and wind power plant projects that will be billed and settled upon registering into the Project List; and (iii) loss allowances of contract assets of approximately HK$37.4 million (31 December 2020: approximately HK$36.9 million). The decrease in contract assets was mainly attributable to the increase in the photovoltaic and wind power plant projects registered into the Project List during the period.

2.14 Trade and bills receivables

Trade and bills receivables of approximately HK$9,224.5 million (31 December 2020: approximately HK$7,057.9 million) as at 30 June 2021 were mainly attributable to (i) gross receivables from the sale of electricity of the photovoltaic and wind power plant projects of approximately HK$7,371.6 million (31 December 2020: approximately HK$4,851.7 million); (ii) gross receivables from the provision of engineering, procurement and construction services for clean energy businesses of approximately HK$1,240.3 million (31 December 2020: approximately HK$1,460.0 million); and (iii) loss allowances of trade and bills receivables of approximately HK$36.2 million (31 December 2020: approximately HK$35.8 million).

As at 30 June 2021, gross trade receivables for the sale of electricity of the photovoltaic and wind power plant projects mainly comprised (i) receivables of approximately HK$555.5 million (31 December 2020: approximately HK$380.7 million) from the sale of electricity mainly to State Grid Corporation, a state-owned enterprise principally engaged in the development and operation of nationwide power network; and (ii) receivables of approximately HK$6,743.1 million (31 December 2020: approximately HK$4,421.7 million) in relation to the central government renewable energy subsidy for photovoltaic and wind power plant projects that have been registered into the Project List.

2. FINANCIAL PERFORMANCE *(Continued)*

2.15 Prepayments, deposits and other receivables, and other tax recoverables

The decrease in prepayments, deposits and other receivables and other tax recoverables by approximately HK$102.5 million in aggregate (non-current portion decreased by approximately HK$587.4 million and current portion increased by approximately HK$484.9 million in aggregate respectively) to approximately HK$9,972.5 million (31 December 2020: approximately HK$10,075.0 million) in aggregate was mainly attributable to the (i) decrease in prepayments, deposits and other receivables for the acquisition and development of clean energy projects; and (ii) the decrease in the input value-added-tax recoverables arising from the utilisation of input value-added-tax recoverables from sale of electricity.

2.16 Cash and cash equivalents

The decrease in cash and cash equivalents by approximately HK$147.5 million to approximately HK$2,374.0 million (31 December 2020: approximately HK$2,521.5 million) was mainly attributable to net effect of (i) net increase in the bank loans and other borrowings; (ii) cash outflow on developing, acquiring and operating clean energy projects; and (iii) net cash inflow from daily operating activities during the period.

2.17 Trade and bills payables

Trade and bills payables of approximately HK$5,483.2 million (31 December 2020: approximately HK$5,898.1 million) mainly represented trade and bills payables in relation to the provision of engineering, procurement and construction services for the development of clean energy projects.

2.18 Other payables and accruals

Other payables and accruals of approximately HK$3,225.2 million (31 December 2020: approximately HK$4,208.2 million) decreased by approximately HK$983.0 million, which was mainly due to the net effect of (i) increase in construction and equipment payables to contractors and suppliers in relation to the projects held by the Group; and (ii) settlement of the construction and equipment payable of projects acquired or under development by the Group during the period.

2.19 Other non-current liabilities

Other non-current liabilities comprised (i) deferred income of approximately HK$955.2 million (31 December 2020: approximately HK$943.5 million) arising from the materials and equipment sold and delivered to independent third parties for the development of a wind power plant project; and (ii) a financial liability of approximately HK$2,308.5 million (31 December 2020: approximately HK$1,404.3 million) mainly arising from an option granted to the Ping An Entities, the Second Round Investors, the Third Round Investors and the Fourth Round Investors (as hereinafter defined under the section headed "2.22 Liquidity and financial resources – (d) Capital contribution" in "Management Discussion and Analysis"). Further details of the option are set out in the Company's announcements dated 27 December 2019, 30 July 2020, 26 March 2021 and the circular dated 24 December 2020.

2.20 Interest-bearing bank loans and other borrowings and corporate bonds (excluding operating leases)

Interest-bearing bank loans and other borrowings and corporate bonds of approximately HK$31,648.0 million (31 December 2020: approximately HK$29,661.3 million) in aggregate increased by approximately HK$1,986.7 million in aggregate (non-current portion decreased by approximately HK$1,238.0 million in aggregate and current portion increased by approximately HK$3,224.7 million in aggregate respectively), which was mainly attributable to the net effect of (i) the drawdown of bank loans and other borrowings for the development of the clean energy businesses; and (ii) the repayment of bank loans and other borrowings during the period.

2. FINANCIAL PERFORMANCE *(Continued)*

2.21 Capital expenditures

During the period, the Group's total capital expenditures amounted to approximately HK$915.5 million (six months ended 30 June 2020: approximately HK$1,753.5 million), comprising (i) development of photovoltaic and wind power plant projects, clean heat supply projects and other property, plant and equipment of approximately HK$485.5 million (six months ended 30 June 2020: approximately HK$1,599.6 million) in aggregate; (ii) acquisition of other intangible assets of approximately HK$1.1 million (six months ended 30 June 2020: approximately HK$2.6 million); and (iii) investments in and acquisition of equity interests in subsidiaries, joint ventures and associates of approximately HK$428.9 million (six months ended 30 June 2020: approximately HK$151.3 million).

2.22 Liquidity and financial resources

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

As at 30 June 2021, the Group's cash and cash equivalents amounted to approximately HK$2,374.0 million (31 December 2020: approximately HK$2,521.5 million).

Developments of the clean energy businesses require intensive initial capital investments and the Group funds such developments during the period mainly by (i) long-term bank loans and other borrowings; (ii) perpetual capital instrument; (iii) corporate bonds; and (iv) capital contribution as illustrated below.

(a) Long-term bank loans and other borrowings and corporate bonds (excluding operating leases)

As at 30 June 2021, the Group's total borrowings of approximately HK$31,648.0 million (31 December 2020: approximately HK$29,661.3 million) comprised (i) bank loans of approximately HK$14,883.9 million (31 December 2020: approximately HK$13,527.8 million); (ii) corporate bonds of approximately HK$1,706.5 million (31 December 2020: approximately HK$1,696.3 million); and (iii) lease liabilities under finance lease arrangements and other loans of approximately HK$15,057.6 million (31 December 2020: approximately HK$14,437.2 million). Approximately 70% (31 December 2020: approximately 79%) of the Group's borrowings are long-term borrowings.

(b) Perpetual capital instrument

On 27 November 2018, the Company issued perpetual capital instrument (the "Perpetual Capital Instrument") with an aggregate principal amount of RMB1,000,000,000 for the purposes of repaying certain of the Group's indebtedness and the Group's general working capital. It was the first corporate green panda perpetual capital instrument issued in the PRC and the first perpetual capital instrument issued by the Group. In January 2019, the Company was awarded as one of the "Outstanding Fixed Income Product Issuers" by the Shenzhen Stock Exchange. Net proceeds after deducting issue expenses amounted to RMB997,000,000. There is no maturity of the instrument and the payments of distribution can be deferred at the discretion of the Company subject to certain conditions. The Perpetual Capital Instrument is classified as equity instruments.

No distribution was paid during the period (for the year ended 31 December 2020: RMB65,000,000).

2. FINANCIAL PERFORMANCE *(Continued)*

2.22 Liquidity and financial resources *(Continued)*

(c) Corporate bonds

A corporate bond (the "Second Corporate Bond") with an aggregate principal amount of RMB900,000,000 was issued by the Company to certain institutional investors on 29 April 2020, bearing interest at a rate of 5.50% per annum. The Second Corporate Bond is unsecured and repayable on 29 April 2023. One year prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of the Second Corporate Bond and the bond holders shall be entitled to sell back the Second Corporate Bond to the Company. Further details of the Second Corporate Bond are set out in the Company's announcement dated 30 April 2020.

A corporate bond (the "First Corporate Bond") with an aggregate principal amount of RMB500,000,000 was issued by the Company to certain institutional investors on 6 December 2019, bearing interest at a rate of 5.99% per annum. The First Corporate Bond is unsecured and repayable on 6 December 2022. One year prior to the maturity pursuant to the terms and conditions in the subscription agreement of the First Corporate Bond, the Company shall be entitled to adjust the coupon rate of the First Corporate Bond and the bond holders shall be entitled to sell back the First Corporate Bond to the Company. Further details of the First Corporate Bond are set out in the Company's announcement dated 6 December 2019.

(d) Capital contribution

Subsequent to the capital contribution in 天津北清電力智慧能源有限公司 (Tianjin Beiqing Electric Smart Energy Co., Ltd.*) (formerly known as 北清清潔能源投資有限公司 (Beiqing Clean Energy Investment Company Limited*)) (the "Beiqing Smart") in the aggregate amount of RMB600 million (the "First Round Capital Increase") by 天津市平安消費科技投資合夥企業(有限合夥)(Tianjin Ping An Consumption Technology Investment Partnership Enterprise (Limited Partnership)*), 嘉興智精投資合夥企業(有限合夥)(Jiaxing Zhijing Investment Partnership Enterprise (Limited Partnership)*), 嘉興智精恒錦投資合夥企業(有限合夥)(Jiaxing Zhijing Hengjin Investment Partnership Enterprise (Limited Partnership)*) and 嘉興智精恒睿投資合夥企業(有限合夥)(Jiaxing Zhijing Hengrui Investment Partnership Enterprise (Limited Partnership)*) (collectively referred to as the "Ping An Entities") in December 2019, on 30 July 2020, the Company, Harvest Sunny International Limited ("Harvest Sunny") and Beiqing Smart, both being subsidiaries of the Company, entered into a capital contribution agreement with 深圳市海匯全贏投資諮詢合夥企業(有限合夥)(Shenzhen Haihui Quanying Investment Consulting Partnership Enterprise (Limited Partnership)*) and 啟鷺(廈門)股權投資合夥企業(有限合夥)(Qilu (Xiamen) Equity Investment Partnership Enterprise (Limited Partnership)*) (the "Second Round Investors"), pursuant to which the Second Round Investors agreed to contribute new capital in the aggregate amount of RMB400 million in return for approximately 4.30% of the enlarged capital of the Beiqing Smart (the "Second Round Capital Increase").

In December 2020, Beiqing Smart conducted a further round of capital increase where 橙葉智成(淄博)股權投資合夥企業(有限合夥)(Orange Leaf Zhicheng (Zibo) Equity Investment Partnership Enterprise (Limited Partnership)*) (the "Third Round Investor") contributed new capital in the amount of RMB100 million to Beiqing Smart (the "Third Round Capital Increase").

2. **FINANCIAL PERFORMANCE** *(Continued)*

2.22 Liquidity and financial resources *(Continued)*

(d) Capital contribution *(Continued)*

On 26 March 2021, the Company, 天津富清投資有限公司 (Tianjin Fuqing Investment Co., Ltd.*) ("Tianjin Fuqing") and Beiqing Smart, both being subsidiaries of the Company, entered into nine capital contribution agreements with 蕪湖建信鼎信投資管理中心(有限合夥)(Wuhu CCB Trust Dingxin Investment Management Centre (Limited Partnership)*), 譽華融投聯動(廈門)投資合夥企業(有限合夥)(Yuhua Rongtou Linkage (Xiamen) Investment Partnership Enterprise (Limited Partnership)*), 南昌市紅谷灘新區航投譽華股權投資中心(有限合夥)(Nanchang Honggutan New District Hangtou Yuhua Equity Investment Centre (Limited Partnership)*), 橙葉志嘉(淄博)股權投資基金中心(有限合夥)(Orange Leaf Zhijia (Zibo) Equity Investment Fund Centre (Limited Partnership)*), 橙葉智通(淄博)股權投資合夥企業(有限合夥)(Orange Leaf Zhitong (Zibo) Equity Investment Partnership Enterprise (Limited Partnership)*), 橙葉智鴻(淄博)股權投資合夥企業(有限合夥)(Orange Leaf Zhihong (Zibo) Equity Investment Partnership Enterprise (Limited Partnership)*), Great First (Hong Kong) Limited ("Great First"), 寧波梅山保稅港區鈞源三號股權投資合夥企業(有限合夥)(Ningbo Meishan Free Trade Zone Junyuan No. 3 Equity Investment Partnership Enterprise (Limited Partnership)*) ("Ningbo Junyuan"), 寧波梅山保稅港區鈞源五號股權投資合夥企業(有限合夥)(Ningbo Meishan Free Trade Zone Junyuan No. 5 Equity Investment Partnership Enterprise (Limited Partnership)*), and 天津富騰企業管理合夥企業(有限合夥)(Tianjin Futeng Enterprise Management Partnership (Limited Partnership)*) (the "Fourth Round Investors"), pursuant to which the Fourth Round Investors agreed to contribute new capital in the aggregate amount of RMB1,076.17 million in return for approximately 9.14% of the enlarged capital of the Beiqing Smart (the "Fourth Round Capital Increase").

The Fourth Round Capital Increase has not been fully completed as at the date of report. Immediately following the completion of the Fourth Round Capital Increase, Beiqing Smart was held as to approximately 80.24% by Harvest Sunny and would continue to be accounted as a subsidiary of the Company. All the First Round Capital Increase, the Second Round Capital Increase, the Third Round Capital Increase and the Fourth Round Capital Increase constitute deemed disposals by the Company of its interests in Beiqing Smart under Chapter 14 of the Listing Rules. Further details are set out in the Company's announcements dated 27 December 2019, 30 July 2020, 15 September 2020 and 26 March 2021 and the circular dated 24 December 2020.

As majority of the funding derives from equity fundings from shareholders in prior years, long-term borrowings, the Perpetual Capital Instrument and the corporate bonds, the Group recorded net current assets position of approximately HK$350.5 million (31 December 2020: approximately HK$1,049.3 million) as at 30 June 2021.

The Group obtains certain unutilised banking facilities to enable higher flexibility and stability on capital management. As at 30 June 2021, the Group had unutilised banking facilities of approximately HK$2,430.5 million in aggregate with terms ranging from repayable on demand to 15 years.

The Group's net gearing ratio, which was calculated by dividing net debt (defined as the corporate bonds, bank loans and other borrowings, net of cash and cash equivalents and other lease liabilities) by the sum of net debt and total equity, was approximately 68% (31 December 2020: approximately 67%) as at 30 June 2021. The increase in net gearing ratio was mainly due to the net effect of (i) the increase in bank loans and other borrowings for the purpose of funding the development of the clean energy businesses; and (ii) the profit attributable to the equity holders of the Company during the period.

MATERIAL ASSET REORGANISATION

On 15 March 2021, Beiqing Smart, an indirect non-wholly owned subsidiary of the Company, entered into an agreement of Intent on Material Asset Reorganisation with 中電電機股份有限公司 (SEC Electric Machinery Co., Ltd.*) ("SEC Electric") pursuant to which Beiqing Smart and SEC Electric proposed to undertake a material asset swap transaction, whereby SEC Electric will use all or part of its assets, liabilities and businesses to swap with the equivalent value of part of the equity interests of Beiqing Smart held by Tianjin Fuqing, an indirect wholly-owned subsidiary of the Company and one of the direct shareholders of Beiqing Smart (the "Asset Swap"). Upon completion of the Asset Swap, SEC Electric will acquire all the remaining equity interests of Beiqing Smart from all the shareholders of Beiqing Smart through the issuance of A-shares of SEC Electric. Further details are set out in the Company's announcement dated 15 March 2021.

On 26 March 2021, SEC Electric, Tianjin Fuqing, all the shareholders of Beiqing Smart (other than Tianjin Fuqing) (the "Remaining Beiqing Smart Shareholders"), and 王建裕先生 (Mr. Wang Jianyu*) and 王建凱先生 (Mr. Wang Jiankai*) (the "Existing SEC Shareholders") entered into the material asset framework agreement dated 26 March 2021 with, among others, Tianjin Fuqing, SEC Electric, the Existing SEC Shareholders and the Remaining Beiqing Smart Shareholders in relation to, among others, the Asset Swap; the disposal of the all remaining equity interest of Beiqing Smart held by Tianjin Fuqing and the Remaining Beiqing Smart Shareholders to SEC Electric; and the new ordinary share(s) in the share capital of SEC Electric to be issued to Tianjin Fuqing and the Remaining Beiqing Smart Shareholders to satisfy the consideration payable by SEC Electric to Tianjin Fuqing and the Remaining Beiqing Smart Shareholders; and the proposed transfer of part of SEC Electric Shares from the Existing SEC Shareholders to Tianjin Fuqing (the "Beiqing Smart Reorganisation") in relation to, among others, the Beiqing Smart Reorganisation. Further details are set out in the Company's announcement dated 26 March 2021.

As at the date of this report, no agreement with legally-binding commitment on Tianjin Fuqing in respect of the transaction abovementioned has been entered into. Further announcement(s) pursuant to the Listing Rules will be made by the Company in due course, as appropriate.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

(a) On 26 March 2021, the Company, Tianjin Fuqing and Beiqing Smart, both being subsidiaries of the Company, entered into nine capital contribution agreements with the Fourth Round Investors, pursuant to which the Fourth Round Investors agreed to contribute new capital in the aggregate amount of RMB1,076.17 million in return for approximately 9.14% of the enlarged capital of Beiqing Smart.

    Immediately following the completion of the Fourth Round Capital Increase, Beiqing Smart will be held as to approximately 80.24% by Tianjin Fuqing. Beiqing Smart would continue to be accounted as a subsidiary of the Company. The Fourth Round Capital Increase constitutes a deemed disposal by the Company of its interests in Beiqing Smart. Further details are set out in the Company's announcement dated 26 March 2021.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES *(Continued)*

(b) On 16 April 2021, Beiqing Smart entered into an operating rights agreement with 連州市嘉潤投資發展有限公司 (Lianzhou City Jiarun Investment Development Co., Ltd.*) (the "Lianzhou Company") in relation to the transfer of the operating rights of 連州市潭嶺水電廠 (Lianzhou City Tanling Hydropower Plant*) (the "Hydropower Plant") to Beiqing Smart (the "Operating Rights Agreement"), pursuant to which the Lianzhou Company agreed to transfer the operating rights of the Hydropower Plant to Beiqing Smart (or its holding company) for a term of 20 years (from the date of transfer of the operating rights of the Hydropower Plant), subject to the obtaining of approval of the pumped-storage project. The basic operating fees payable by Beiqing Smart under the Operating Rights Agreement shall be approximately RMB41,020,000 per annum. Further details are set out in the Company's announcements dated 16 April 2021 and 30 April 2021.

(c) On 14 May 2021, 西藏多能共拓企業管理合夥企業（普通合夥）(Tibet Duoneng Gongtuo Enterprise Management Partnership Enterprise (General Partnership)*) (as the "Purchaser") (an indirect non-wholly owned subsidiary of the Company) and Great First entered into a target equity transfer agreement (the "Great First Target Equity Transfer Agreement"), pursuant to which the Purchaser agreed to acquire, and Great First agreed to dispose of, approximately 8.33% equity interest in 北控風力發電有限公司 (Beijing Enterprises Wind Power Generation Company Limited*) (as the "Target Company") at a consideration of RMB33,222,712 (the "Great First Target Equity Transfer"). On 14 May 2021, the Purchaser also entered into a target equity transfer agreement with each of Ningbo Junyuan and Super Bright (Hong Kong) Limited, ("Super Bright") respectively, pursuant to which the Purchaser agreed to acquire, and Ningbo Junyuan and Super Bright agreed to dispose of, an aggregate of approximately 11.88% equity interest in the Target Company at an aggregate of consideration of RMB47,520,726 (the "Ningbo Junyuan and Super Bright Target Equity Transfer"), (The Great First Target Equity Transfer and the Ningbo Junyuan and Super Bright Target Equity Transfer are collectively referred to as the "Target Equity Transfer").

The Target Equity Transfer has been completed as at the date of this report. Upon completion of the Target Equity Transfers, the Purchaser will hold an aggregate of approximately 95.76% equity interest in the Target Company. The Target Company will continue to be a non-wholly owned subsidiary of the Company and its financial results will continue to be consolidated into the financial results of the Group. Further details are set out in the Company's announcement dated 14 May 2021.

Save as disclosed above, there were no significant investments, material acquisition and disposal of subsidiaries, associates and joint ventures by the Group during the period ended 30 June 2021.

CHARGE ON THE GROUP'S ASSETS

The secured bank loans and other borrowings and bills payables of the Group as at 30 June 2021 are secured by:

(i) pledges over certain of the Group's property, plant and equipment and operating concessions;

(ii) pledges over certain of the Group's trade receivables and contract assets;

(iii) pledges over the Group's equity interests in certain subsidiaries;

(iv) guarantees given by the Company and/or its subsidiaries; and/or

(v) pledges over certain of the Group's bank balances.

Save as disclosed above, at 30 June 2021, the Group did not have any charges on the Group's assets.

CONTINGENT LIABILITIES

As at the end of the reporting period, the Group did not have any significant contingent liabilities (31 December 2020: Nil).

FOREIGN EXCHANGE EXPOSURE

Majority of the subsidiaries of the Company operate in the PRC with most of the transactions denominated and settled in RMB. Fluctuations of exchange rates would impact the Group's net asset value due to currency translation in the preparation of the Group's consolidated accounts. If RMB appreciates/depreciates against HK$, the Group would record a(n) increase/decrease in the Group's net asset value. During the six months ended 30 June 2021, the Group has not used derivative financial instruments to hedge against its foreign currency risk.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the Group employed 1,930 employees (30 June 2020: 1,921 employees) with total staff cost of approximately HK$154.2 million (six months ended 30 June 2020: approximately HK$136.9 million) incurred for the six months ended 30 June 2021. The Group's remuneration packages are generally structured with reference to market terms and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period are set out in page 59 of this report.

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN AN INVESTMENT CIRCULAR

To the Directors of China Shandong Hi-Speed Financial Group Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Shandong Hi-Speed Financial Group Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors for illustrative purposes only. The pro forma financial information consists of the pro forma net asset statement as at 30 June 2021 and related notes as set out on pages III-4 to III-8 of the investment circular issued by the Company. The applicable criteria on the basis of which the directors have compiled the pro forma financial information are described in pages III-4 to III-8. The pro forma financial information has been compiled by the directors to illustrate the impact of the proposed acquisition of the Target Company on the Group's financial position as at 30 June 2021 as if the transaction had taken place at 30 June 2021. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the period ended 30 June 2021.

Directors' Responsibility for the Pro Forma Financial Information

The directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to AG 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2021 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Crowe (HK) CPA Limited
8 December
9/F, Leighton Centre,
77 Leighton Road,
Causeway Bay,
Hong Kong

The following is an illustrative and unaudited pro forma condensed consolidated statement of financial position of the Enlarged Group (the "Unaudited Pro Forma Financial Information"), which has been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the completion of the Acquisition on the financial position of the Group as at 30 June 2021 as if the completion of the Acquisition had taken place on 30 June 2021.

The Unaudited Pro Forma Financial Information has been prepared on the basis of the notes below based on a number of assumptions, estimates, uncertainties and currently available information. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 June 2021. Neither does the Unaudited Pro Forma Financial Information purports to predict the future financial position of the Enlarged Group.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 30 June 2021, or any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in its published interim report for the six months ended 30 June 2021 and other financial information included elsewhere in this circular.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE GROUP

	Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2021	Pro forma adjustments	Pro forma adjustments	Unaudited pro forma consolidated statement of financial position of the Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2 and 3)*	*(Note 4)*	
NON-CURRENT ASSETS				
Property, plant and equipment	62,951	–	–	62,951
Right-of-use assets	33,614	–	–	33,614
Intangible assets	1,132,856	–	–	1,132,856
Interests in associates	2,171,520	3,109,495	–	5,281,015
Financial assets at fair value through other comprehensive income	1,742,350	–	–	1,742,350
Financial assets at fair value through profit or loss	54,199	–	–	54,199
Finance lease receivables	377,831	–	–	377,831
Loans receivables	300,388	–	–	300,388
Total non-current assets	5,875,709	3,109,495	–	8,985,204
CURRENT ASSETS				
Financial assets at fair value through other comprehensive income	3,456,636	–	–	3,456,636
Financial assets at fair value through profit or loss	6,697,157	–	–	6,697,157
Finance lease receivables	778,178	–	–	778,178
Loans receivables	2,811,600	–	–	2,811,600
Trade and other receivables	960,910	–	–	960,910
Restricted cash	69,919	–	–	69,919
Cash held on behalf of clients	14,107	–	–	14,107
Cash and cash equivalents	2,013,213	–	(2,333)	2,010,880
Total current assets	16,801,720	–	(2,333)	16,799,387

	Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2021	Pro forma adjustments	Pro forma adjustments	Unaudited pro forma consolidated statement of financial position of the Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2 and 3)*	*(Note 4)*	
CURRENT LIABILITIES				
Other payables and accruals	171,622	–	–	171,622
Lease liabilities	13,179	–	–	13,179
Borrowings	3,847,478	–	–	3,847,478
Tax payables	404	–	–	404
Total current liabilities	4,032,683	–	–	4,032,683
NET CURRENT ASSETS	12,769,037	–	(2,333)	12,766,704
TOTAL ASSETS LESS CURRENT LIABILITIES	18,644,746	3,109,495	(2,333)	21,751,908
NON-CURRENT LIABILITIES				
Borrowings	8,814,649	1,273,360	–	10,088,009
Lease liabilities	24,784	–	–	24,784
Other payables and accruals	22,249	–	–	22,249
Deferred tax liabilities	111,750	–	–	111,750
Total non-current liabilities	8,973,432	1,273,360	–	10,246,792
Net assets	9,671,314	1,836,135	(2,333)	11,505,116
CAPITAL AND RESERVES				
Issued capital	6,022	–	–	6,022
Reserves	2,485,290	1,836,135	(2,333)	4,319,092
Equity attributable to owners of the Company	2,491,312	1,836,135	(2,333)	4,325,114
Perpetual capital instrument	7,081,570	–	–	7,081,570
Non-controlling interests	98,432	–	–	98,432
Total equity	9,671,314	1,836,135	(2,333)	11,505,116

Notes:

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2021 as set out in the published interim report of the Company for the six months ended 30 June 2021.

2. Profit Plan Global Investment Limited ("**Purchaser**") entered into the agreement with CTSL Green Power Investment Limited ("**Vendor A**") and CTSL New Energy Investment Limited ("**Vender B**") (collectively "**Venders**"), pursuant to which, the Vendors have conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire the Sale Shares at the Consideration of HK$1,273,360,000. In particular, Vendor A and Vender B will sell to the Purchaser approximately 11.39% and approximately 11.39% of the total issued share capital of the Target Company respectively.

   Upon Completion, the Group will be interested in approximately 22.78% of the issued share capital of the Target Company. The Target Company will not become a subsidiary of the Company and the financial results of the Target Company will not be consolidated into the financial statements of the Group.

3. Upon the completion of the Major Transaction, the Target Company will become a 22.78% owned associate of the Company, and is accounted for in the consolidated financial statements of the Group using equity method in accordance with HKAS 28 "**Investments in Associates and Joint Ventures**".

   The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. For the purpose of this Unaudited Pro Forma Financial Information, the net fair value of the identifiable assets and liabilities of the Target Group as at 30 June 2021 is determined based on the directors' estimates of the fair value of the identifiable assets and liabilities of the Target Group.

   The Group will estimate its share of the net fair value of the identifiable assets and liabilities of the Target Group as of the date of completion. The excess of the consideration over the Group's share of the fair value of the Target Group's net assets will be accounted for as goodwill and will be recorded in the carrying value of the investment in the Target Group. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the consideration, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired. In the opinion of the Directors, the fair values of the identifiable assets and liabilities of the Target Group are subject to change upon completion of the Major Transaction, as the fair values of the assets and liabilities being acquired shall be assessed on the date of completion.

For illustrative purpose, should the Major Transaction had been completed on 30 June 2021 and the fair value of the Target Group's net assets as of that date approximate to the carrying amounts of the Target Group's net assets, extracted from the interim report of the Target Company published on 21 September 2021 (being the latest financial information of the Target Company), the pro forma goodwill will be as follows:.

	HK$'000	*HK$'000*
Total consideration paid/payable		1,273,360
Carrying amounts of the Target Group's net assets as at 30 June 2021	13,650,110	
Share of 22.78% of the Target Group's net assets		3,109,495
Pro forma negative goodwill arising from the Major Transaction		(1,836,135)

4. The adjustment represents estimated expenses incurred in connection with the Major Transaction of which would be recognised in the Group's consolidated income statement upon completion of the Major Transaction. This adjustment does not have continuing effect on the Group.

5. Save as set out above, the unaudited pro forma consolidated statement of financial position of the Enlarged Group does not take into account any trading results or other transactions of the Group and the Target Group entered into subsequent to 30 June 2021.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm, that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Interests of Directors and chief executive

As at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the he/she was taken or deemed to have taken under such provisions of the SFO), or were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Appendix 10 to the Listing Rules.

As at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Interests and Short Positions of Substantial Shareholders

As at the Latest Practicable Date, so far as known to the Directors, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Substantial Shareholders	Capacity	Number of Shares held	Approximate percentage of Shareholding[(1)]
Shandong Hi-Speed Group Co., Ltd.* (山東高速集團有限公司)[(2)]	Interest in a controlled corporation	10,459,648,350	43.42%(L)
Shandong Hi-Speed (BVI) Capital Management Limited[(2)]	Interest in a controlled corporation	5,459,648,350	22.66%(L)
Shandong Hi-Speed (Hong Kong) International Capital Limited[(2)]	Beneficial owner	5,459,648,350	22.66%(L)
Shandong Rural Economic Development and Investment Company Limited* (山東省農村經濟開發投資公司)[(2)]	Interest in a controlled corporation	5,000,000,000	20.76%(L)
Shandong International (Hong Kong) Limited[(2)]	Beneficial owner	5,000,000,000	20.76%(L)
China Credit Trust Co., Ltd.[(3)]	Interest in a controlled corporation	6,846,686,000	28.42%(L)
Harvest Fund Management Co., Ltd.[(3)]	Interest in a controlled corporation	6,846,686,000	28.42%(L)
Harvest Global Investments Limited[(3)]	Interest in a controlled corporation	6,846,686,000	28.42%(L)
Harvest Alternative Investment Opportunities SPC for and on behalf of Harvest High Speed Fund SP[(3)]	Interest in a controlled corporation	6,846,686,000	28.42%(L)
JS High Speed Limited[(3)]	Beneficial owner	6,846,686,000	28.42%(L)

Name of Substantial Shareholders	Capacity	Number of Shares held	Approximate percentage of Shareholding[1]
Tai Fung Bank Limited[4]	Security interest	6,846,686,000	28.42%(L)
Haitong Securities Co., Ltd.[5]	Interest in a controlled corporation	1,215,048,516 1,215,048,516	5.04%(L) 5.04%(S)
Haitong International Holdings Limited[5]	Interest in a controlled corporation	1,215,048,516 1,215,048,516	5.04%(L) 5.04%(S)
Haitong International Securities Group Limited[5]	Interest in a controlled corporation	1,215,048,516 1,215,048,516	5.04%(L) 5.04%(S)
Haitong International (BVI) Limited[5]	Interest in a controlled corporation	1,215,048,516 1,215,048,516	5.04%(L) 5.04%(S)
Haitong International Asset Management (HK) Limited[5]	Investment Manager	1,215,048,516 1,215,048,516	5.04%(L) 5.04%(S)

Notes:

(1) The calculation is based on the issued share capital of the Company of 24,089,384,437 shares as at the Latest Practical Date.

(2) Shandong Hi-Speed (Hong Kong) International Capital Limited was wholly-owned by Shandong Hi-Speed (BVI) Capital Management Limited, which was in turn wholly-owned by Shandong Hi-Speed Group Co., Ltd.*（山東高速集團有限公司）. Shandong International (Hong Kong) Limited was wholly-owned by Shandong Rural Economic Development and Investment Company Limited*（山東省農村經濟開發投資公司）, which was in turn wholly-owned by Shandong Hi-Speed Group Co., Ltd*（山東高速集團有限公司）. Therefore, Shandong Hi-Speed Group Co., Ltd*（山東高速集團有限公司）was deemed to be interested in totally 10,459,648,350 shares of the Company, comprising 5,459,648,350 shares held indirectly through Shandong Hi-Speed (BVI) Capital Management Limited and 5,000,000,000 shares held indirectly through Shandong Rural Economic Development and Investment Company Limited*（山東省農村經濟開發投資公司）.

(3) JS High Speed Limited was wholly-owned by Harvest Alternative Investment Opportunities SPC for and on behalf of Harvest High Speed Fund SP, which was owned as to 91% by Harvest Global Investments Limited, which was in turn wholly-owned by Harvest Fund Management Co., Ltd., which was owned as to 40% by China Credit Trust Co., Ltd..

(4) Tai Fung Bank Limited as chargee had security interest in those 6,846,686,000 shares under a share charge with JS High Speed Limited as chargor.

(5) Haitong International Asset Management (HK) Limited was wholly-owned by Haitong International (BVI) Limited, which was in turn wholly-owned by Haitong International Securities Group Limited. Haitong International Securities Group Limited was owned as to 64.40% by Haitong International Holdings Limited, which was in turn wholly-owned by Haitong Securities Co., Ltd.. Therefore, each of Haitong Securities Co., Ltd., Haitong International Holdings Limited, Haitong International Securities Group Limited and Haitong International (BVI) Limited was deemed to be interested in the long positions of 1,215,048,516 shares (long position) and 1,215,048,516 shares (short position) held by Haitong International Asset Management (HK) Limited. Such 1,215,048,516 shares (short position) involve physically settled unlisted derivatives.

(6) (L)－Long position；(S)－Short position.

* *For identification purposes only*

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any person (other than the Directors or chief executives of the Company) had interests or short positions which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into a service contract with any member of the Group which was not expiring or determinable by the Group within 1 year without payment of compensation, other than statutory compensation.

4. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2020, the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

5. DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting and which was significant in relation to the business of the Group.

6. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, so far as is known to the Directors, none of the Directors or their respective associates had any business or interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) were entered into by member(s) of the Enlarged Group within the two years immediately preceding the date of this circular and are, or may be, material:

(a) On 17 January 2020, the Company and Industrial and Commercial Bank of China (Macau) Limited entered into a facility letter in respect of loan facilities of up to US$63,690,000 provided by Industrial and Commercial Bank of China (Macau) Limited to the Company;

(b) On 23 April 2020, the Company as borrower, CMB Wing Lung Bank Limited as lender and Shandong Hi-Speed Group Co., Ltd.*（山東高速集團有限公司）entered into a facility letter in respect of loan facilities of up to HK$500,000,000 provided by CMB Wing Lung Bank Limited to the Company;

(c) On 25 May 2020, Coastal Emerald Limited as issuer, the Company and Shandong Hi-Speed Group Co., Ltd*（山東高速集團有限公司）as guarantors and Bank of Communications Trustee Limited as trustee entered into a trust deed pursuant to which Bank of Communications Trustee Limited agreed to act as trustee in respect of US$2,000,000,000 guaranteed medium term note programme (the "**Trust Deed May 2020**");

(d) On 25 May 2020, Coastal Emerald Limited, the Company, Shandong Hi-Speed Group Co., Ltd*（山東高速集團有限公司）and Bank of Communications Trustee Limited entered into a keepwell and liquidity support deed for the benefit of Bank of Communications Trustee Limited and the holders of notes which have the benefit of a keepwell and liquidity support undertaking and an equity interest purchase undertaking from the Company and related coupons and receipts under US$2,000,000,000 guaranteed medium term note programme;

(e) On 25 May 2020, Coastal Emerald Limited, the Company, Shandong Hi-Speed Group Co., Ltd*（山東高速集團有限公司）and Bank of Communications Trustee Limited entered into a deed of equity interest purchase undertaking for the benefit of Bank of Communications Trustee Limited and the holders of notes which have the benefit of a keepwell and liquidity support undertaking and an equity interest purchase undertaking from the Company and related coupons and receipts under US$2,000,000,000 guaranteed medium term note programme;

(f) On 25 May 2020, Coastal Emerald Limited, the Company and Shandong Hi-Speed Group Co., Ltd.*（山東高速集團有限公司）, ICBC International Securities Limited, Standard Chartered Bank and Industrial and Commercial Bank of China (Asia) Limited entered into a dealer agreement in respect of US$2,000,000,000 guaranteed medium term note programme (the "**Dealer Agreement May 2020**");

(g) On 27 May 2020, Coastal Emerald Limited as issuer, the Company as guarantor, Shandong Hi-Speed Group Co., Ltd.*（山東高速集團有限公司）and the joint lead managers entered into a subscription agreement, pursuant to which Coastal Emerald Limited agreed to issue, and the joint lead managers agreed to subscribe or procure subscribers to subscribe for US$800,000,000 3.80 percent notes due 2021 under US$2,000,000,000 guaranteed medium term note programme;

(h) On 3 June 2020, the Company executed a corporate guarantee for the benefit of Bank of Communications Trustee Limited which the Company guaranteed payment of all sums expressed to be payable by Coastal Emerald Limited under US$800,000,000 3.80 percent notes due 2021 and the Trust Deed May 2020;

(i) On 27 October 2020, the Company as borrower, China Citic Bank International Limited as lender and Shandong Hi-Speed Group Co., Ltd.*（山東高速集團有限公司）entered into a facility letter in respect of loan facilities of up to HK$400,000,000 provided by China Citic Bank International Limited to the Company;

(j) On 27 October 2020, the Company as borrower, Shandong Hi-Speed Group Co., Ltd.*（山東高速集團有限公司）as keepwell provider and China Citic Bank International Limited as lender entered into a facility letter in respect of loan facilities of up to HK$50,000,000 provided by China Citic Bank International Limited to the Company;

(k) On 11 September 2020, Coastal Emerald Limited as issuer, the Company as guarantor and Citigroup Global Markets Limited as subscriber entered into a subscription agreement, pursuant to which Coastal Emerald Limited agreed to issue, and Citigroup Global Markets Limited agreed to subscribe for US$50,000,000 3.80 percent guaranteed bonds due 2021;

(l) On 16 September 2020, the Company executed a corporate guarantee in favour of the holders of US$50,000,000 3.80 percent guaranteed bonds due 2021 pursuant to which the Company guaranteed the payment of all sums expressed to be payable by Coastal Emerald Limited to the registered holders of US$50,000,000 3.80 percent guaranteed bonds due 2021 and to the account holders under the Deed of Covenant September 2020 (as defined below);

(m) On 16 September 2020, Coastal Emerald Limited and the Company executed a deed of covenant in favour of holders of US$50,000,000 3.80 percent guaranteed bonds due 2021 and the relevant account holders (the "**Deed of Covenant September 2020**") that it would perform and comply with obligations expressed to be taken by it under the Fiscal Agency Agreement September 2020 (as defined below);

(n) On 16 September 2020, Coastal Emerald Limited as issuer, the Company as guarantor, Citicorp International Limited as fiscal agent and Citibank, N.A. London Branch as paying agent, registrar and transfer agent entered into a fiscal agency agreement (the "**Fiscal Agency Agreement September 2020**") pursuant to which Coastal Emerald Limited appointed Citicorp International Limited and Citibank, N.A. London Branch as its agents and Citicorp International Limited and Citibank, N.A. London Branch accepted their appointment as agent in respect of US$50,000,000 3.80 percent guaranteed bonds due 2021;

(o) On 7 April 2021, Perfect Waters Limited entered into a share purchase agreement with Ms. Fu Yu, pursuant to which Perfect Waters Limited agreed to sell and Ms. Fu Yu agreed to purchase the entire issued shares of Coastal Silk Limited held by Perfect Waters Limited at the aggregate consideration of RMB3,000,000;

(p) On 19 April 2021, Coastal Emerald Limited as issuer, the Company as guarantor and China Everbright Securities (HK) Limited as placing agent entered into a placing agreement (the "**Coastal Placing Agreement April 2021**") pursuant to which Coastal Emerald Limited agreed to issue and China Everbright Securities (HK) Limited agreed to act as placing agent to procure subscribers for the proposed placement of and facilitate subscription of US$100,000,000 2.61 percent guaranteed senior unsecured bonds due 2021;

(q) On 23 April 2021, Coastal Emerald Limited as issuer, Bank of Communications Trustee Limited as trustee and the Company entered into a trust deed (the "**Trust Deed April 2021**") pursuant to Coastal Placing Agreement April 2021;

(r) On 23 April 2021, the Company executed a corporate guarantee for the benefit of Bank of Communications Trustee Limited which the Company guaranteed the payment of all sums expressed to be payable by Coastal Emerald Limited under US$100,000,000 2.61 percent guaranteed senior unsecured bonds due 2021 and the Trust Deed April 2021;

(s) On 23 April 2021, Coastal Emerald Limited as issuer, the Company as guarantor, Bank of Communications Trustee Limited as trustee and Bank of Communications Co., Ltd. Hong Kong Branch as issuing and paying agent, transfer agent and registrar entered into an agency agreement pursuant to which Coastal Emerald Limited and the Company appointed Bank of Communications Co., Ltd. Hong Kong Branch as their agent and Bank of Communications Co., Ltd. Hong Kong Branch accepted its appointment as agent in respect of US$100,000,000 2.61 percent guaranteed senior unsecured bonds due 2021;

(t) On 13 May 2021, Coastal Emerald Limited as issuer, the Company and Shandong Hi-Speed Group Co., Ltd.*（山東高速集團有限公司）as guarantors and the arrangers and dealers entered into an amendment to dealer agreement to amend the Dealer Agreement May 2020;

(u) On 17 May 2021, Coastal Emerald Limited as issuer, the Company as guarantor, Shandong Hi-Speed Group Co., Ltd.*（山東高速集團有限公司）and the joint lead managers entered into a subscription agreement, pursuant to which Coastal Emerald Limited agreed to issue, and the joint lead managers agreed to subscribe for US$200,000,000 3.95 percent notes due 2024 issued under US$2,000,000,000 guaranteed medium term note programme;

(v) On 17 May 2021, Coastal Emerald Limited as issuer and the Company as guarantor entered into the pricing supplement which provided final terms of US$200,000,000 3.95 percent notes due 2024;

(w) On 24 May 2021, the Company executed a corporate guarantee for the benefit of Bank of Communications Trustee Limited which the Company guaranteed payment of all sums expressed to be payable by Coastal Emerald Limited under US$200,000,000 3.95 percent notes due 2024 and the Trust Deed May 2020;

(x) On 28 June 2021, the Company and Hua Xia Bank Co., Limited Hong Kong Branch entered into a facility letter (the "**Hua Xia Facility Letter June 2021**") in respect of a revolving loan facility of up to US$30,000,000 provided by Hua Xia Bank Co., Limited Hong Kong Branch to the Company;

(y) On 29 June 2021, the Company executed a general agreement by customer to supplement the Hua Xia Facility Letter June 2021;

(z) On 6 August 2021, the Company and China Guangfa Bank Co., Ltd. Shanghai Branch entered into a loan agreement in respect of loan facilities of up to RMB285,000,000 provided by China Guangfa Bank Co.,Ltd. Shanghai Branch to the Company;

(aa) On 27 September 2021, the Company and Hua Xia Bank Co., Limited Hong Kong Branch entered into a facility letter in respect of a revolving loan facility of up to US$50,000,000 provided by Hua Xia Bank Co., Limited Hong Kong Branch to the Company, to supersede the Hua Xia Facility Letter June 2021;

(bb) On 27 September 2021, the Company and Hua Xia Bank Co., Limited Hong Kong Branch entered into a facility letter in respect of a revolving loan facility of up to US$100,000,000 provided by Hua Xia Bank Co., Limited Hong Kong Branch to the Company;

(cc) On 19 October 2021, Coastal Emerald Limited as issuer, the Company as guarantor and Huatai Financial Holdings (Hong Kong) Limited as placing agent entered into a placing agreement (the "**Coastal Placing Agreement October 2021 (Tranche 1)**"), pursuant to which Coastal Emerald Limited agreed to issue and Huatai Financial Holdings (Hong Kong) Limited agreed to act as placing agent to procure subscribers for the proposed placement of and facilitate subscription of US$20,000,000 2.8 percent guaranteed senior unsecured bonds due 2022;

(dd) On 19 October 2021, Coastal Emerald Limited as issuer, the Company as guarantor and Huatai Financial Holdings (Hong Kong) Limited as placing agent entered into a placing agreement (the "**Coastal Placing Agreement October 2021 (Tranche 2)**"), pursuant to which Coastal Emerald Limited agreed to issue and Huatai Financial Holdings (Hong Kong) Limited agreed to act as placing agent to procure subscribers for the proposed placement of and facilitate subscription of US$40,000,000 2.8 percent guaranteed senior unsecured bonds due 2022;

(ee) On 22 October 2021, Coastal Emerald Limited as issuer, the Company as guarantor and CMB Wing Lung (Trustee) Limited as trustee entered into a trust deed (the "**Trust Deed (Tranche 1)**") pursuant to Coastal Placing Agreement October 2021 (Tranche 1);

(ff) On 22 October 2021, Coastal Emerald Limited as issuer, the Company as guarantor and CMB Wing Lung (Trustee) Limited as trustee entered into a trust deed (the "**Trust Deed (Tranche 2)**") pursuant to Coastal Placing Agreement October 2021 (Tranche 2);

(gg) On 22 October 2021, the Company executed a corporate guarantee for the benefit of CMB Wing Lung (Trustee) Limited pursuant to which the Company guaranteed the payment of all sums expressed to be payable by Coastal Emerald Limited under US$20,000,000 2.8 percent guaranteed senior unsecured bonds due 2022 and the Trust Deed (Tranche 1);

(hh) On 22 October 2021, the Company executed a corporate guarantee for the benefit of CMB Wing Lung (Trustee) Limited pursuant to which the Company guaranteed the payment of all sums expressed to be payable by Coastal Emerald Limited under US$40,000,000 2.8 percent guaranteed senior unsecured bonds due 2022 and the Trust Deed (Tranche 2);

(ii) On 22 October 2021, Coastal Emerald Limited as issuer, the Company as guarantor, CMB Wing Lung (Trustee) Limited as trustee and CMB Wing Lung Bank Limited as principal paying agent, transfer agent and registrar entered into an agency agreement pursuant to which Coastal Emerald Limited and the Company appointed CMB Wing Lung Bank Limited as their agent and CMB Wing Lung Bank Limited accepted its appointment as agent in respect of US$20,000,000 2.8 percent guaranteed senior unsecured bonds due 2022;

(jj) On 22 October 2021, Coastal Emerald Limited as issuer, the Company as guarantor, CMB Wing Lung (Trustee) Limited as trustee and CMB Wing Lung Bank Limited as principal paying agent, transfer agent and registrar entered into an agency agreement pursuant to which Coastal Emerald Limited and the Company appointed CMB Wing Lung Bank Limited as their agent and CMB Wing Lung Bank Limited accepted its appointment as agent in respect of US$40,000,000 2.8 percent guaranteed senior unsecured bonds due 2022; and

(kk) the SP Agreement.

8. LITIGATION

As disclosed in the interim report of the Company for the six months ended 30 June 2021, the Company is engaged in the following litigation or claims of material importance as at the Latest Practicable Date:

(a) Recovery of loans receivables under the loans to Honesta

Shangao International Finance Leasing (Shenzhen) Co., Ltd.* (山高國際融資租賃(深圳)有限公司)("**Shangao International Leasing**") provided three loans to Shenzhen Honesta New Finance Holding Limited* (深圳厚生新金融控股有限公司)("**Honesta New Finance**"), each of which has a loan principal of RMB100,000,000, a loan period of 18 months and an annual interest rate of 7.5% payable semi-annually. The three loans were drawn down on 13 April 2018, 18 May 2018, and 21 August 2018, respectively (the"**First Honesta Loan**", "**Second Honesta Loan**" and "**Third Honesta Loan**", respectively and collectively, the "**Loans to Honesta**"). The outstanding loans receivable due from Honesta New Finance amounted to approximately RMB389,184,000 (equivalent to approximately HK$468,062,000) at the Latest Practicable Date.

Before the Group's disposal of the entire issued shares in Coastal Silk Limited on 7 April 2021 (the "**Disposal**"), Honesta New Finance was a subsidiary of the Company and the Loans to Honesta were therefore regarded as intercompany transactions within the Group. As the Loans to Honesta became loan receivables due from Honesta New Finance to the Group after the Disposal, on the same date as the completion of the Disposal, the Group:

(i) entered into a receivable charge agreement (the "**Receivable Charge Agreement**") with Honesta New Finance for the creation by Honesta New Finance of first ranking charges in favour of the Group over, among others, all Honesta New Finance's rights, title and interests arising from certain of its loan receivables as security for Honesta New Finance's repayment obligations under the Loans to Honesta; and

(ii) entered into the guarantee agreement with a total of nine guarantors (the "**Honesta's Guarantors**"), pursuant to which the Honesta's Guarantors agreed to bear irrevocable joint and several liabilities (連帶責任保證) for the repayment obligations of Honesta New Finance under the Loans to Honesta.

In this regard, Shangao International Leasing

(i) filed an arbitration application with the Shenzhen Court of International Arbitration（深圳國際仲裁院）against Honesta New Finance on 22 July 2021 and initiated civil litigation proceedings in the Shenzhen Intermediate People's Court（深圳市中級人民法院）against Honesta New Finance and all Honesta's Guarantors on 23 July 2021 for the recovery of, among others, the outstanding principal, interests and liquidated damages receivable under the Loans to Honesta; and

(ii) initiated civil litigation proceedings in the Shenzhen Intermediate People's Court（深圳市中級人民法院）against Honesta New Finance on 23 July 2021 for the claim of its rights of priority compensation（優先受償權）to certain loan receivables of Honesta New Finance by virtue of the Receivable Charge Agreement.

Details of the claims are disclosed in the announcements of the Company dated 7 April 2021 and 23 July 2021.

(b) Recovery of receivables under the Notes

The Group entered into a subscription agreement in June 2020 for the subscription of senior secured and guaranteed notes in the aggregate principal amount of US$100,000,000 (equivalent to approximately HK$780,000,000) (the "**Notes**"), which were classified as financial assets at FVTOCI. The due and punctual performance and observance by the issuer (the "**Notes Issuer**") of its obligations under the Notes are secured by corporate and individual guarantees (together the "**Corporate and Individual Guarantees**") and other securities, including equity interest pledge (the "**Equity Interest Pledge**"), share charge and pledge over asset-backed securities. The Notes Issuer was unable to redeem all of the Notes on the maturity date at the applicable redemption amounts pursuant to the terms of the Notes, which constituted an event of default under the Notes. The Group has taken relevant legal measures to claim the principal amount and interest outstanding on the Notes, including but not limited to:

(i) filing a civil lawsuit in Hong Kong on 25 August 2021 against the Notes Issuer; and

(ii) filing civil lawsuit application(s) on 23 August 2021 against the respective guarantors under the Corporate and Individual Guarantees and the pledgor under the Equity Interest Pledge in Nanjing Intermediate People's Court*（南京市中級人民法院）.

In relation to (i), the first hearing of the Group's application for summary judgment was held on 8 November 2021 in the High Court of Hong Kong and the second hearing is fixed on 20 December 2021.

Details of the above are set out in the Company's announcements dated 12 June 2020 and 25 August 2021.

(c) Recovery of investment in Altair Asia

The Group invested in Altair Asia Investment Limited ("**Altair Asia**") with a guaranteed return of 15% internal rate of return per annum. Pursuant to the terms of the subscriptions of Altair Asia, the Group has issued a written notice to Altair Asia on 4 January 2018 requesting the redemption of the entire participating shares of cost of investment in value of HK$200,000,000 and subsequently on 23 January 2018 agreed to waive its rights to request for early redemption of part of the participating shares of HK$140,000,000 on the ground of certain cumulative conditions being met within the prescribed time. Since the conditions of waiver were not fully satisfied and Altair Asia failed to redeem all the participating shares pursuant to the subscription terms, the Group commenced legal proceedings in the High Court of Hong Kong against Altair Asia's two guarantors, including (1) a winding-up petition against China Silver Asset Management (Hong Kong) Limited ("**CSAMHK**"); and (2) a bankruptcy petition against Frank Dominick; and a winding-up petition against Altair Asia in the Grant Court of the Cayman Islands (the "**Cayman Court**") for the recovery of the investment.

On 11 March 2020, the High Court of Hong Kong handed down its decision ordering, among others, that (1) CSAMHK be wound up; and (2) the bankruptcy petition against Frank Dominick be adjourned. On 19 March 2020, CSAMHK lodged its notice of appeal to appeal against the said decision. The date of the appeal hearing is yet to be fixed.

On 4 November 2020, the Group presented another creditor's winding up petition against Altair Asia in the Cayman Court.

On 7 December 2020, the Honourable Justice made a winding up order against Altair Asia and appointed joint and several liquidators. The Group has claims against Altair Asia in the approximate sum of US$17,494,271.36 (equivalent to approximately HK$135,624,000) plus interest and cost arising out of the redemption of shares in Altair Asia.

On 1 October 2021, the Group presented another creditor's winding up petition against China Silver Asset Management Limited in the Cayman Court. The hearing is fixed on 9 December 2021 in the Cayman Court.

(d) Claim under Hong Kong Leasing Sale and Purchase Agreement

As disclosed in the annual report of the Company for the year ended 31 December 2020, pursuant to a share purchase agreement entered into by Shinning Seas Limited ("**Shinning Seas**"), a wholly owned subsidiary of the Company, the Company, China Hover Dragon Group Limited ("**China Hover Dragon**"), Mr. Gao Chuanyi ("**Mr. Gao**"), Ms. Wang Zi Yi ("**Ms. Wang**") and Mr. Ji Kewei ("**Mr. Ji**") dated 8 April 2015 and as varied by a supplemental agreement dated 29 July 2015 (together, the "**Hong Kong Leasing Sale and Purchase Agreement**"), Shinning Seas has agreed to buy and China Hover Dragon and Mr. Gao (collectively as the "**Vendors in Hong Kong Leasing Sale and Purchase Agreement**") have agreed to sell the entire issued share capital of China Shandong Hi-Speed Hong Kong Leasing Limited (formerly known as Hong Kong Leasing Limited) ("**Hong Kong Leasing**") at a consideration of approximately HK$1,581,945,000. The acquisition was completed on 1 September 2015. The consideration was settled by way of allotment and issue of 2,361,112,121 shares of the Company (equivalent to an aggregate amount of approximately HK$1,581,945,000 based on the closing price on 1 September 2015 of HK$0.67 per share as quoted on the Stock Exchange). There was an arrangement of profits guarantee from the Vendors in Hong Kong Leasing Sale and Purchase Agreement that if the audited net profits after tax of the relevant year of Hong Kong Leasing is less than the guaranteed amounts, the base consideration for the acquisition shall be reduced by way of repurchase by the Company of part of the consideration shares.

The profit guarantee was met and there was no adjustment for the period from 1 September 2015 to 31 August 2016. For the period from 1 September 2016 to 31 August 2017, the audited net profits after tax as shown in audited consolidated accounts for the period from 1 September 2016 to 30 August 2017 of the Hong Kong Leasing was less than HK$200,000,000, the Vendors in Hong Kong Leasing Sale and Purchase Agreement were obligated to sell 1,213,939,394 consideration shares ("**Profit Guarantee Shares**"), as calculated using the formula as stipulated in the Hong Kong Leasing Share and Purchase Agreement, to the Company at nil consideration.

A stop notice had been served by the Company on 16 March 2018 pursuant to the Rules of High Court to stop the transfer of 1,951,714,383 ordinary shares of the Company (including the Profit Guarantee Shares and the bad debt repurchase shares held by the shareholders of China Hover Dragon ("**Subject Shares**"), and payment of dividend. Shinning Seas (as 1st Plaintiff) and the Company (as 2nd Plaintiff) has commenced an action in the High Court of Hong Kong on 31 July 2018 against China Hover Dragon (as 1st Defendant), Mr. Gao (as 2nd Defendant), Chinanet Consultancy Limited ("**Chinanet**", a shareholder of China Hover Dragon) (as 3rd Defendant), Ms. Wang (as 4th Defendant) and Mr. Ji (as 5th Defendant) for, among others, the release of and deliver up of possession of the shares certificates for the Subject Shares.

After the service of the said writ on China Hover Dragon, Chinanet, Ms. Wang and Mr. Ji, a defence and counterclaim was filed by China Hover Dragon, Chinanet, Ms. Wang and Mr. Ji against Shinning Seas and the Company in December 2018. In April 2019, China Hover Dragon, Chinanet, Ms. Wang and Mr. Ji served a counterclaim against Mr. Yau Wai Lung, a former executive director of the Company, as 3rd defendant by counterclaim. After service of a concurrent writ of summons out of jurisdiction on Mr. Gao, Mr. Gao had filed a defence and counterclaim in November 2019. Upon application, the High Court of Hong Kong granted leave on 13 March 2020 for the five defendants to file and serve a consolidated defence and counterclaim, and for the plaintiffs and the 3rd defendant by counterclaim to file and serve their reply and defence to the defendants' consolidated defence and counterclaim.

On 13 January 2021, an amended writ of summons was filed adding Shangao Financial Leasing (Beijing) Co., Ltd.*（山高融資租賃(北京)有限公司）as the 3rd Plaintiff. On 9 April 2021, the five defendants filed defendants' amended consolidated defence and counterclaim. On 9 July 2021, an amended rely and defence to the defendants' amended consolidated defence and counterclaim was filed.

The repurchase of the Profit Guarantee Shares and the bad debt repurchase Shares are under legal proceedings as at the Latest Practicable Date.

(e) Claim under a finance lease arrangement

A finance lease arrangement (the "**Yunan Highway Finance Lease**") was entered into in July 2013 (as supplemented in December 2013) by, among others, (i) Shangao International Leasing, an indirect wholly-owned subsidiary of the Company, as lessor; and (ii) China Yunnan Highway Construction Group Company Limited.*（中國雲南路建集團股份公司）(the "**Yunan Highway**") as lessee.

The Group has been continuously assessing the credit risks of Yunan Highway since its's default in repayment of lease payables under the Yunan Highway Finance Lease in March 2018. The Group's continuous measures included but not limited to the conducting of site visits and communicating with the ultimate beneficial owners, auditors and debtors of the Yunan Highway to keep abreast of the status and progress of Yunan Highway's business, financial liquidity, financial audits and bankruptcy reorganization.

Pursuant to the Group's business and financial investigation, it became clear in the end of 2020 that the credit risks of Yunan Highway had reached a level of significance where substantial impairment of the loan receivables should be made. In assessing the credit risk of Yunan Highway and determining the need and extent of impairment of finance lease receivables under the Yunan Highway Finance Lease for the year ended 31 December 2020, the Group had primarily taken into account the following factors, events and circumstances at that material time:

(i) The Group had not received any repayment from Yunan Highway under the Yunan Highway Finance Lease since March 2018;

(ii) The Group's investigation revealed that Yunan Highway and its major operating subsidiaries had ceased their respective business operations, and that Yunan Highway was significantly insolvent (that its total liability exceeded its total assets under its financial statements by a significant degree);

(iii) According to public records as at 23 October 2020, (i) there were 204 records of enforcement of judgment against Yunan Highway; and (ii) there were 112 cases of unsuccessful enforcement of judgements against Yunan Highway due to lack of enforceable assets (終本案件), involving unfulfilled monetary obligations of approximately RMB292,462,100; and

(iv) The net realisable value of the Yunan Highway Leased Assets were unascertainable as the Group's investigation revealed that a significant portion of them may have become obsolete or untraceable.

For the reasons stated above, the Group regarded that the credit risk of Yunan Highway was high and therefore decided that an impairment of HK$137,302,479.73 for the Yunan Highway Finance Lease should be made for the year ended 31 December 2020. As at 31 December 2020, all loan receivables under the Yunan Highway Finance Lease had been fully impaired. It is the view of the Directors that the factors set out above which formed the primary foundation of the impairment could not have been anticipated by the Group when the agreement of Yunan Highway Finance Lease was entered into back on 26 July 2013 which was more than 6 years before the relevant impairment was made.

As disclosed in the announcement of the Company dated 30 December 2020, the Group has sought legal advice, has been conducting site visits and communicating with the ultimate beneficial owners, auditors and debtors of the Yunan Highway to keep abreast of the status and progress of Yunan Highway's business, financial liquidity, financial audits and bankruptcy reorganization.

The Group has commenced relevant legal proceedings against Yunan Highway and the personal guarantors and corporate guarantors of the Yunan Highway Finance Lease in a view to recover the outstanding lease receivables.

Save as disclosed above, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

9. QUALIFICATION AND CONSENTS OF EXPERTS AND EXPERTS' INTERESTS

The following is the qualification of the experts who have given opinion or advice which is contained in this circular:

Name	**Qualification**
Crowe (HK) CPA Limited (the "**Expert**")	Certified Public Accountants

The report of the Expert is given as of the date of this circular for incorporation herein.

As at the Latest Practicable Date, the Expert has confirmed that it did not have any shareholding, directly or indirectly, in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

The Expert has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of their letters and the references to their name in the form and context in which they respectively appear in this circular.

As at the Latest Practicable Date, the Expert did not have any direct or indirect interest in any assets which have been acquired, or disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2020, being the date to which the latest published audited accounts of the Group were made up.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published and displayed on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at http://www.csfg.com.hk for a period of 14 days from the date of this circular (both days inclusive):

(a) the SP Agreement; and

(b) the consent letter from the Expert.

11. GENERAL

(a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(b) The principal place of business in Hong Kong of the Company is at 17th Floor, Agricultural Bank of China Tower, No. 50 Connaught Road Central, Hong Kong.

(c) The share registrar and transfer office in Bermuda of the Company is MUFG Fund Services (Bermuda) Limited 4th floor North Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda and the share registrar and transfer office in Hong Kong of the Company is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The joint company secretaries of the Company are Ms. Du Ning（杜凝）, who is currently the executive director of the board secretary office of the Company, and Ms. Chen Chun（陳淳）, who is an associate member of the Hong Kong Chartered Governance Institute (formerly known as the Hong Kong Institute of Chartered Secretaries) and an associate member of the Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

(e) The English text of this circular shall prevail over the Chinese text in case of inconsistency except where English translations of Chinese terms are stated to be provided for identification purposes only, in which case the Chinese terms shall prevail.

中國山東高速金融集團有限公司
CHINA SHANDONG HI-SPEED FINANCIAL GROUP LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 412)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of China Shandong Hi-Speed Financial Group Limited (the "**Company**") will be held at Conference Room, 17th Floor, Agricultural Bank of China Tower, No. 50 Connaught Road Central, Hong Kong on Friday, 24 December 2021 at 9 a.m. (the "**SGM**") for the purpose of considering and, if thought fit, ratify the following resolution as an ordinary resolution of the Company. Capitalised terms defined in the circular dated 8 December 2021 issued by the Company (the "**Circular**") shall have the same meanings when used herein unless otherwise specified:

ORDINARY RESOLUTION

"**THAT:**

1. (a) the SP Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

   (b) the Directors be and is hereby generally and unconditionally authorised to do all such acts and things and execute all such documents and to take all such steps as it considers necessary or expedient or desirable in connection with or to give effect to paragraph (a) of this resolution no. 1, and all such acts and things the Directors have done, all such documents the Directors have executed, and all such steps the Directors have taken are hereby approved, confirmed and ratified."

By order of the Board
China Shandong Hi-Speed Financial Group Limited
Wang Xiaodong
Chairman

Hong Kong, 8 December 2021

Notes:

1. In order to be eligible to attend and vote at the SGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 22 December 2021. The register of members of the Company will be closed from Thursday, 23 December 2021 to Friday, 24 December 2021, both days inclusive, for determination of entitlements to attend and vote at the SGM and during which period no transfer of Shares will be registered.

2. Any Shareholder entitled to attend and vote at the SGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy needs not be a Shareholder.

3. The form of proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer or attorney duly authorised.

4. Delivery of the form of proxy shall not preclude a Shareholder from attending and voting in person at the SGM.

5. The form of proxy, the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, shall be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be) at which the person named in the form of proxy proposes to vote and in default the form of proxy shall not be treated as valid.

6. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy or by representative, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of Shareholders of the Company in respect of the joint holding.

As at the date of this notice, the Company has three executive directors, namely Mr. Wang Xiaodong, Mr. Liu Zhijie and Mr. Liu Yao; four non-executive directors, namely Mr. Zhu Jianbiao, Mr. Liang Zhanhai, Mr. Chen Di and Mr. Wang Wenbo; and four independent non-executive directors, namely Mr. Guan Huanfei, Mr. Chan Wei Hei, Mr. Tan Yuexin and Mr. Jonathan Jun Yan.