



北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

BEIJING ENTERPRISES HOLDINGS LIMITED

Stock Code : 392

ANNUAL
REPORT
—
2020





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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Li Yongcheng (*Chairman*)
Mr. Jiang Xinhao (*Vice Chairman*)
Mr. Zhao Xiaodong (*Vice Chairman*)
Mr. Dai Xiaofeng
Mr. Xiong Bin (*Chief Executive Officer*)
Mr. Tam Chun Fai
(*Chief Financial Officer & Company Secretary*)

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Li Yongcheng
Mr. Wu Jiesi (*Committee Chairman*)
Mr. Lam Hoi Ham

NOMINATION COMMITTEE

Mr. Li Yongcheng (*Committee Chairman*)
Mr. Lam Hoi Ham
Dr. Yu Sun Say

INVESTMENT COMMITTEE

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

COMPANY SECRETARY

Mr. Tam Chun Fai *CPA CFA*

STOCK CODE

392

WEBSITE

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SHARE REGISTRAR

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AUDITOR

Ernst & Young

CORPORATE INFORMATION

LEGAL ADVISERS

Hong Kong Law

Mayer Brown

PRC Law

Haiwen & Partners

PRINCIPAL BANKERS

In Hong Kong

Bank of China, Hong Kong Branch

Bank of Communications, Hong Kong Branch

DBS Bank Ltd., Hong Kong Branch

In Mainland China

Agricultural Bank of China

Bank of China

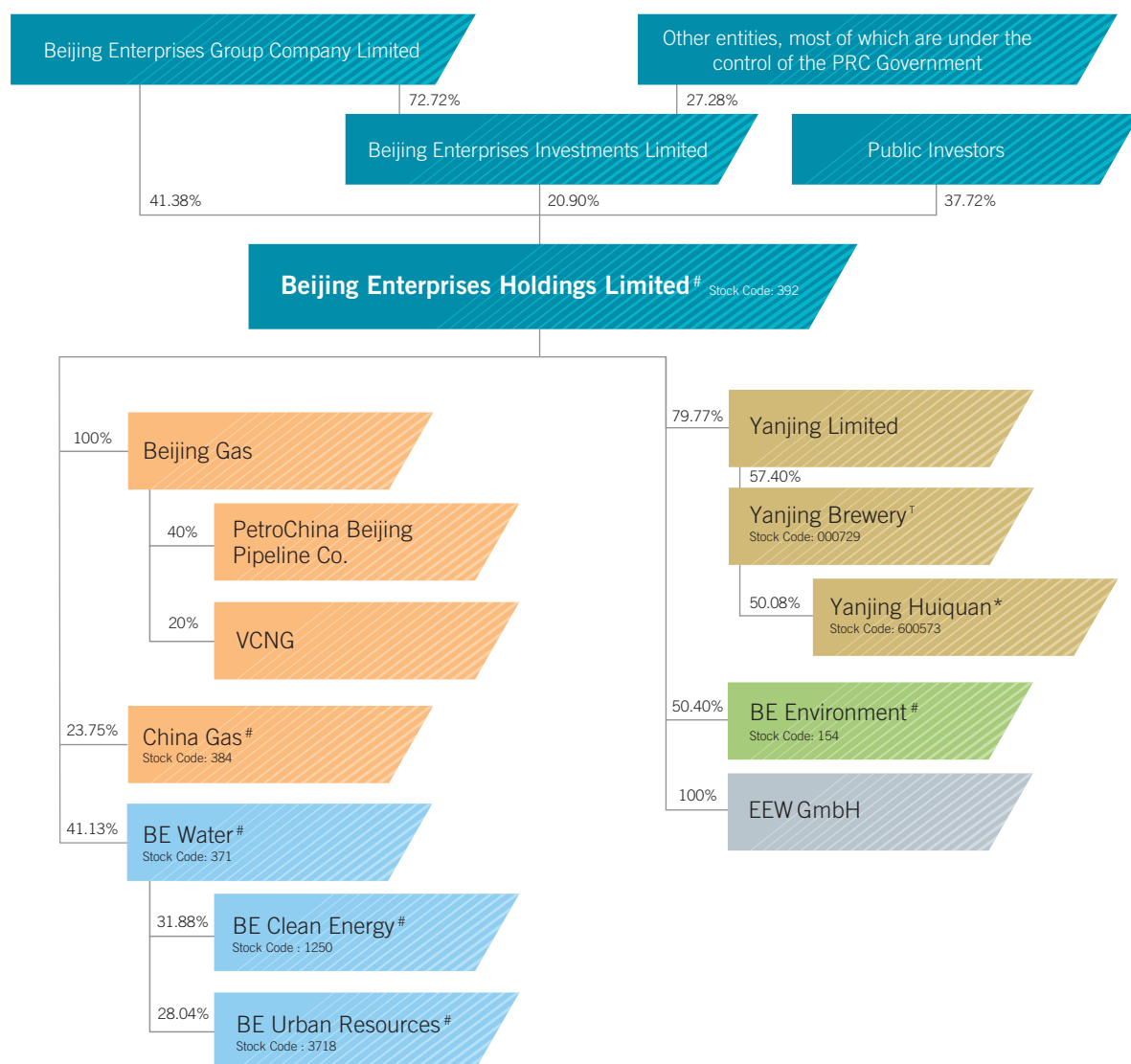
China Construction Bank

The Industrial and Commercial Bank of China

Bank of Beijing

CORPORATE STRUCTURE

As at 31 December 2020



* Listed on The Shanghai Stock Exchange
^T Listed on The Shenzhen Stock Exchange
[#] Listed on The Main Board of The Hong Kong Stock Exchange

FINANCIAL HIGHLIGHTS

Financial Highlights for the year ended 31 December	2020 HK\$'000	2019 HK\$'000	Change
Turnover	68,407,443	67,783,028	0.9%
Gross profit	10,864,897	10,946,137	-0.7%
Profit for the year	5,646,463	8,573,609	-34.1%
Profit attributable to shareholders of the Company	5,286,888	8,054,780	-34.4%
Basic and diluted EPS (in HK dollars)	4.19	6.38	-34.4%
Total dividend per share (in HK dollars)	1.14	1.14	0.0%
EBIT	8,651,294	11,790,946	-26.6%
EBITDA	13,131,086	15,949,682	-17.7%
Total assets	204,804,421	185,806,276	10.2%
Bank balance and cash	29,122,428	22,158,921	31.4%
Shareholders' equity	84,897,106	75,281,639	12.8%

Key financial indicators for the year ended 31 December

	2020	2019
Average finance costs	3.0%	3.6%
Current ratio (times)	0.93	0.96
Gross profit margin	15.9%	16.1%
Net gearing ratio	40.6%	47.8%
Net profit margin	8.3%	12.6%
Payout ratio (%)	27.2%	17.9%
Return on average equity	6.6%	11.1%

Definitions:

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

CHAIRMAN'S STATEMENT

In 2020, the COVID-19 pandemic had exerted tremendous impact on global economic and social activities. Beijing Enterprises Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) endeavoured its best to ensure the safe provision of urban operation services, actively responded to the profound changes of the development situation both domestically and abroad, overcame the adverse effects brought by the pandemic, and focused on its main responsibilities and businesses to achieve the steady growth of the Company.

The Company achieved an operating revenue of HK\$68.41 billion during the year. The EBITDA amounted to approximately HK\$13.13 billion. Profit attributable to shareholders of the Company amounted to HK\$5.29 billion; profit attributable to shareholders after deducting the impact of one-off events amounted to HK\$7.2 billion. Basic and diluted earnings per share amounted to HK\$4.19. The Board proposed the distribution of a final dividend of HK74 cents per share, the annual dividend per share totals HK\$1.14.



For the gas business, Beijing Gas Group Company Limited (“Beijing Gas”) implemented its high-quality mission to ensure the supply of natural gas in the capital city, and actively promoted key projects in markets both in and outside Beijing. With the completion of the Tangshan LNG storage tanks project, the advancement of the Tianjin Nangang LNG terminal construction, and the participation and facilitation of Beijing Gas in gas facilities construction in the Xiong’an New Area, Beijing Gas will further enhance its supply capabilities and its strategic layout in the Beijing-Tianjin-Hebei region.

For the brewery business, Beijing Yanjing Brewery Co., Ltd. (“Yanjing Brewery”) adapted to the new industry trends and new consumption patterns, actively explored new online marketing channels, promoted product upgrades, and initiated the transformation towards a high-end and younger brand.

CHAIRMAN'S STATEMENT

For the water treatment and environmental business, Beijing Enterprises Water Group Limited (“BE Water”, stock code: 371), adopted its asset-light strategy as guideline, focused on the upgrading of smart water services and improved operational efficiency. The deepening of the co-operation with domestic partners and the successful expansion of overseas business in the Sri Lankan market are expected to bring expanding market potential.

For the solid waste treatment business, the overseas company, EEW Energy from Waste GmbH (“EEW GmbH”), managed to achieve a stable growth in its operating indicators and profitability despite the impact of the pandemic. However, domestic projects were facing greater challenges due to the uncertainty brought by policy risks. The Group will promote the absorption and application of EEW GmbH's technology and management experience, and synergistically propel the overall improvement of production efficiency of the solid waste segment.

The year 2021 is the first year for the Group to embark on a new journey in the development of the “14th Five-Year Plan”. The Company will adapt to the changes in our times and continuously improve our core competitiveness, moving forward on the path of high-quality development. Meanwhile, the Group will also focus on the harmonious development of our own business with the economy, society and environment, formulate a sustainable development plan for future growth, and improve our performance in the ESG segment. We will exert positive impact on social development and environmental construction to reciprocate the support from our shareholders and all sectors of the society.

Li Yongcheng

Chairman

Hong Kong

31 March 2021

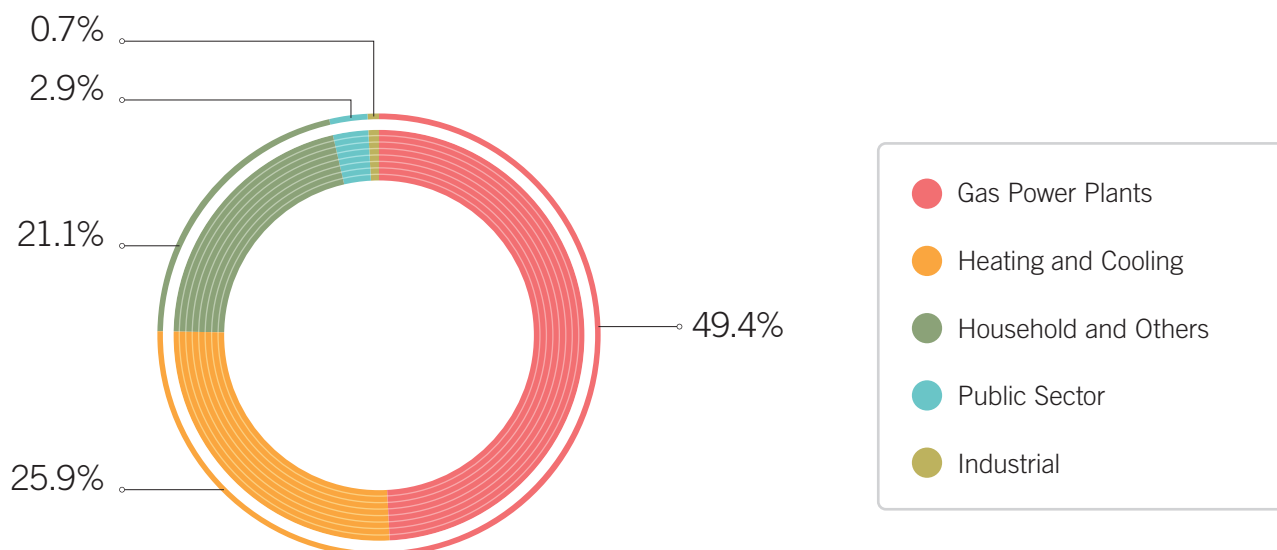
MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

In 2020, the novel coronavirus (COVID-19) pandemic broke out and spread across the world, causing a major impact on global economic development and the world's political and economic landscape. The main business segments within the Group had also been affected in various degrees by reductions in operating activities, consumption shrinkage, and projects delay. The Company and our subsidiaries actively responded to the profound and complex changes in the development environment both domestically and abroad, adhered to the coordinated promotion of normalized pandemic prevention and control and business development, and delivered best services in urban operation service guarantee of gas, water and environmental protection.

Natural Gas Distribution Business of Beijing Gas

Beijing Gas Group Company Limited ("Beijing Gas") recorded an operating revenue of HK\$48.55 billion in 2020, representing a year-on-year increase of 2.2%. Profit before taxation from principal businesses (including natural gas distribution business, natural gas transmission business and VCNG of Rosneft) was HK\$4.51 billion, representing a year-on-year decrease of 17%. Beijing Gas accomplished an aggregate gas sales volume of 17.07 billion cubic meters after combining with that of the subsidiaries outside Beijing, representing a year-on-year decrease of 0.8%. The gas sales volume accomplished inside Beijing amounted to 16.57 billion cubic meters, remaining at the same level as last year. An analysis by subscriber sector is shown as follows:



MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW *(Continued)*

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

In 2020, Beijing Gas developed 241,800 new household subscribers and 4,902 new public sector subscribers. New heating boiler subscribers with a total capacity of 3,301 t/h were developed. As at 31 December 2020, Beijing Gas had a total of 6.53 million piped gas subscribers in Beijing and approximately 25,100 kilometers of natural gas pipelines in operation. Beijing Gas's capital expenditure for the year amounted to approximately HK\$2.88 billion.

Beijing Gas completed its high quality natural gas supply mission in the capital city in 2020, and had established a secured mechanism for key pandemic prevention and control units such as hospitals and disease control and prevention centers to ensure the safe and stable supply of natural gas. In addition, the Tangshan LNG emergency reserve project was completed during the year, and the construction of the Tianjin Nangang LNG project progressed steadily, which further enhanced the capabilities of Beijing Gas in natural gas supply. In terms of market expansion, Beijing Gas had accelerated the acquisition and centralized integration of assets inside Beijing, and participated in the facilitation of the gas supporting facilities construction in the Xiong'an New Area outside Beijing and completed the natural gas ventilation project of Xiong'an High-speed Railway Station. It had also steadily propelled the integrated energy projects, among which the Universal Beijing Resort project completed its natural gas ventilation installation. In addition, the value-added businesses centering on product sales and gas insurance grew rapidly and its service capabilities and service quality also continued to improve.



Natural Gas Transmission Business

In 2020, PetroChina Beijing Gas Pipeline Co., Ltd. ("PetroChina Beijing Pipeline Co.") recorded a gas transmission volume of 49.33 billion cubic meters, representing a year-on-year decrease of 4.86%. Beijing Gas' share of net profit after taxation, through its 40% equity interests in PetroChina Beijing Pipeline Co., decreased by 26.5% over the year to HK\$1.36 billion. The total capital expenditure of PetroChina Beijing Pipeline Co. for the year was HK\$1.16 billion.

VCNG of Rosneft

The PJSC Verkhnechonskneftegaz ("VCNG") project of Rosneft Oil Company achieved its petroleum sales of approximately 7.445 million tons in 2020. Beijing Gas shared a net operating profit after taxation of HK\$710 million through its 20% equity interest in VCNG, representing a year-on-year decrease of 41.8%, which was mainly due to the impact of intense fluctuations in oil price.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW *(Continued)*

China Gas

China Gas Holdings Limited (“China Gas”, stock code: 384) achieved a profit attributable to the Group of HK\$2.2 billion in 2020, representing a year-on-year increase of 3.9%. During the six months ended 30 September 2020, China Gas achieved a sales volume of 12.83 billion cubic meters in natural gas, representing an increase of 8.4% over the corresponding period of last year. It achieved a sales volume of 1.95 million tons in LPG, representing a decrease of 1.1% over last year. It completed 2.83 million new household connections and the cumulative number of households connected by China Gas was approximately 37.94 million as of 30 September 2020, with a natural gas pipeline network of approximately 447,000 kilometers.



Beer Business

Owing to the impact of the pandemic on consumer activities, the production and operation of Beijing Yanjing Brewery Co., Ltd. (“Yanjing Brewery”) faced relatively higher pressure. Yanjing Brewery took the four key measures of “brand enhancement, channel consolidation, market intensification, and precision operation” as an important layout of strategic transformation, focused on the three important means in products, channels and markets to actively adopt various measures such as enriching product matrix and innovating communication media. The beer sales volume had achieved continuous growth since the second quarter.



During the year, Yanjing Brewery achieved a sales volume of 3.53 million kilolitres, of which, the sales volume of Yanjing main brand was 2.34 million kilolitres and the sales volume of “1+3” brand was 3.25 million kilolitres. The operating revenue that Beijing Yanjing Brewery Investments Co., Limited* (北京燕京啤酒投資有限公司) (“Yanjing Limited”) recorded was HK\$11.05 billion during the year with its profit before taxation from major operations of HK\$460 million. The capital expenditure of Yanjing Limited for the year was approximately HK\$345 million.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW *(Continued)*

Water and Environmental Business

In 2020, Beijing Enterprises Water Group Limited (“BE Water”, stock code: 371) continued to develop its core capabilities to operate distinctively, facilitated the construction of standardized model plants, strengthened the guidance on corporate investment strategy and enhanced internal investment capabilities. BE Water’s profit attributable to its shareholders decreased by 15% year-on-year to HK\$4.183 billion due to the factors such as delay in construction caused by the epidemic and higher costs in fighting against the epidemic, and the net profit attributable to the Group was HK\$1.72 billion, a year-on-year decrease of 15.1%.



As of 31 December 2020, BE Water entered into service concession arrangements and entrustment agreements with 1,334 water plants in total, including 1,115 sewage treatment plants, 174 water distribution plants, 43 reclaimed water treatment plants and 2 seawater desalination plants, with a total daily design capacity of 42.12 million tons. The net increase in daily design capacity for the year was 2.736 million tons.

Solid Waste Treatment Business

As at the end of 2020, the waste incineration power generation treatment capacity of the solid waste treatment business segment reached 29,932 tons/day, and the hazardous waste treatment capacity reached 115,000 tons/year. During the year, EEW Energy from Waste GmbH (“EEW GmbH”) accomplished a waste treatment volume of 4.811 million tons, representing a year-on-year increase of 1.9%. The sales volume of electricity was 1,818 million KWH, a year-on-year increase of 2.5%, the sales volume of heat was 887 million KWH, a year-on-year increase of 12.1%, and the sales volume of steam was 2,096 million KWH, with a year-on-year decrease of 3.7%. EEW GmbH maintained an overall stable operation during the height of the pandemic in Europe, and its operating revenue for the year reached HK\$5.66 billion, a year-on-year increase of 6.5%.



MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW *(Continued)*

Solid Waste Treatment Business *(Continued)*

The domestic solid waste projects of the Group completed a waste treatment volume of 4.683 million tons during the year, a year-on-year increase of 9.9%. It completed an on grid power generation volume of 1,450 million KWH, representing a year-on-year increase of 18.5%. The domestic enterprises had strengthened the operation and maintenance management, put more efforts in equipment maintenance and overhaul during the pandemic, improved machinery unit stability and equipment serviceability, and well prepared for the post stage operation after reaching the capacity in stable production. Beijing Enterprises Environment Group Limited (“BE Environment”, stock code: 154) and Beijing Enterprises Holdings Environment Technology Co., Ltd (“BEHET”) achieved a total operating revenue of HK\$3,050 million. The capital expenditure for solid waste related businesses (both domestic and overseas) during the year was approximately HK\$2,300 million.

Major capital operations

In 2020, the Group established a green finance framework and successfully issued a 5-year green bond of EUR500 million for the first time under this framework, demonstrating its determination to promote the harmonious development of its business, economy, society and the environment, as well as sustainable development.

Principal Risks – Exchange Rate Fluctuation

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

During 2020, the average exchange rates of RMB against Hong Kong dollar and U.S. Dollar were stable as compared with last year. And, the Board did not expect the mild fluctuation of RMB’s exchange rate in the future will have material adverse impact on the operations of the Group. As the Euro assets and Euro debts of the Group were basically matched, the Group was less affected by the fluctuation of Euro exchange rate.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW *(Continued)*

Main Uncertainties

The Group's principal businesses include natural gas downstream distribution and midstream transmission, water and environmental operations, solid waste treatment and beer production. Most of the utilities related businesses are governed by policies set out by National Development and Reform Commission and may be subject to changes from time to time. The continuous spreading of the pandemic overseas has led to a decline in international energy demand, and the normalization of domestic pandemic prevention and control has also brought many changes and uncertainties to the industries and the market environments associated with the industries that the Group is operating in. The Group will timely adjust its strategy, take proactive moves, and strive to take the initiative in operation under the domestic market environment changes such as the accelerating industry chain reform and remodelling, consumer demand rebound, and consumption structure upgrade.

II. PROSPECTS

Natural gas distribution business of Beijing Gas

From the perspective of the domestic natural gas industry, driven by the target of “carbon neutrality”, natural gas will continue to play an important role in the realization of the medium-term environmental policy goals. Beijing Gas will further strive to integrate the market inside Beijing and expand the share of point-to-point supply, while the LNG business is committed to opening up the entire process of independent procurement of overseas resources, storage in own LNG tanks, and sales in own market. Meanwhile, we will conform to the energy development situation, actively explore clean energy and integrated energy projects, promote the multi-energy coupling and smart synergy of natural gas and renewable energies, and realize the diversified development of aero-thermal-power and other businesses.



China Gas

China Gas will focus on improving its efficiency and effectiveness, and continue to endeavour every effort to advance its established development strategy. In the urban gas business, China Gas will strive to increase its gas sales volume while optimizing the gas sales structure. In the liquefied petroleum gas business, it will strengthen operation management, improve market-oriented mechanisms, and increase overall profitability by enhancing terminal market sales. In terms of value-added services, it will rely on its huge piped natural gas and liquefied petroleum gas service network and high quality customer resources to open up new market growth potential for value-added services.

MANAGEMENT DISCUSSION AND ANALYSIS

II. PROSPECTS *(Continued)*

Beer business

In line with the development trend of the beer industry, Yanjing Brewery will follow the strategic marketing direction of “channel consolidation and market intensification”, continue to develop the incremental potential for retail channels, and make every effort to stabilize its market competitive position. Meanwhile, to meet the needs of consumption upgrade, Yanjing Brewery will expand the supply of mid-to-high-end products, speed up the development and storage of new products, take the new product creation and old product upgrade as opportunities to optimize production capacity layout, and build a full-cycle, efficient production and operation system centering on product development, supply chain, production control and marketing management.



Water and environmental business

The water and environmental operation of the Group is transforming from high-speed development to high-quality development. BE Water will focus on smart water upgrading, create technological innovation drive and promote the integration of technology and operation so as to enhance the core competitiveness of light assets operation through connecting the water-related assets in the whole region with the metropolitan smart platform. Meanwhile, we will promote the capacity upgrading of our investment system and implement high-quality project investment strategy.



Solid waste treatment business

The solid waste treatment business segment of the Group will strive to comprehensively improve production efficiency and expand profitability growth potential. The domestic enterprises will strengthen the efficient and stable operation of existing projects, while continuing to improve the co-processing capabilities of new types of solid waste such as sludge, kitchen waste and biomass waste. We will conduct in-depth study of resources utilization of industrial solid waste and hazardous waste, and expand new revenue streams. For the overseas projects through EEW GmbH, we will actively respond to the impact of the pandemic in Europe, rely on the internal growth brought about by the commissioning of new projects and steadily increase its revenue contributions on the basis of ensuring a stable waste supply.

MANAGEMENT DISCUSSION AND ANALYSIS

III. FINANCIAL REVIEW

Revenue

The revenue of the Group in 2020 was HK\$68.41 billion, which increased by 1% as compared with 2019. Of which, the revenue of Beijing Gas was HK\$48.55 billion, representing a year-on-year increase of 2.2%, which accounted for 71% of total revenue. The revenue of beer sales was HK\$11.05 billion, which accounted for 16.1% of total revenue. The solid waste treatment businesses contributed a total revenue of HK\$8.81 billion, which accounted for 12.9% of total revenue, including the revenue of EEW GmbH amounted to HK\$5.66 billion.

Cost of Sales

Cost of sales increased by 1.2% to HK\$57.54 billion. Cost of sales of gas distribution business included purchase cost of natural gas as well as depreciation charge of pipeline network. Cost of sales of brewery business included raw materials, wage expenses and absorption of certain direct overheads. Cost of sales of solid waste treatment business included fuel charges, amortisation and waste collection costs.

Gross Profit Margin

In 2020, the overall gross profit margin was 15.9%, down by 0.2 percentage point when compared with 16.1% of last year. The slight decrease in overall gross profit margin was mainly attributable to the increase in gas purchase cost of Beijing Gas as well as the increase in operating costs of EEW GmbH.

Gains on Deemed Disposal of Partial Interests in Associates

In 2019, BE Water and China Gas, the associates of the Group, issued the ordinary shares, respectively. A total gain of HK\$338 million on the deemed disposal of the partial interest in an associate was recognised as the equity interest held by the Group was diluted.

There was no related gains in 2020.

Other Income

Other income mainly comprised government grants of HK\$105 million; dividend income of HK\$222 million; value-added tax refund income of HK\$69 million; gain on transfer of assets from customers of HK\$59 million; rental income of HK\$59 million; income of sales of scraps and beer bottles of Yanjing Brewery amounting to HK\$92 million and bank interest income amounting to HK\$605 million.

MANAGEMENT DISCUSSION AND ANALYSIS

III. FINANCIAL REVIEW *(Continued)*

Selling and Distribution Expenses

Selling and distribution expenses of the Group in 2020 were HK\$2.03 billion, which was basically the same as last year.

Administrative Expenses

Administrative expenses of the Group in 2020 were HK\$4.72 billion, decreased by 2.5% when compared to last year, which was mainly attributable to the decrease in administrative expenses resulting from the effective control in cost and expenses by Beijing Gas and Yanjing Brewery.

Other Operating Expenses, net

Other operating expenses, net mainly included the impairment on certain assets of solid waste businesses affected by the change in the national electricity tariff subsidy policy during the year.

Finance Costs

Finance costs of the Group in 2020 were HK\$2.0 billion, decreased by 9% when compared to 2019, which was mainly due to the decrease in loan costs.

Share of Profits and Losses of Associates

Share of profits and losses of associates mainly included the 40% share of profit attributable to shareholders of PetroChina Beijing Pipeline Co., the 20% share of profit attributable to shareholders of VCNG, the 23.74% share of profit attributable to shareholders of China Gas and the 41.13% share of profit attributable to shareholders of BE Water.

In 2020, the Group shared the profit after taxation of PetroChina Beijing Pipeline Co. amounting to HK\$1.36 billion, the profit after taxation of VCNG amounting to HK\$710 million, the profit after taxation of China Gas amounting to HK\$2.2 billion and the net profit of BE Water amounting to HK\$1.72 billion. Furthermore, during the year, the Group provided for asset value adjustment for its associate, Beijing Gas Blue Sky Holdings Limited ("Beijing Gas Blue Sky", stock code: 6828), with reference to its share price and the impact on the Group was a decrease in profit of HK\$1.12 billion.

Taxation

After deducting the share of profits and losses of associates and jointly-controlled entities, the effective income tax rate was 60%, which was higher than the 39.6% in last year and was mainly due to the non-deductible taxation effect of the one-off asset value adjustment for Beijing Gas Blue Sky and certain impairment expenses for solid waste business for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

III. FINANCIAL REVIEW *(Continued)*

Profit Attributable to Shareholders of the Company

The profit attributable to the shareholders of the Company for the year ended 31 December 2020 was HK\$5.29 billion. After excluding the effect of the one-off events for the year, profit attributable to shareholders of the Company amounted to HK\$7.2 billion (2019: HK\$8.05 billion), representing a decrease of 10.7% over last year.

IV. FINANCIAL POSITION OF THE GROUP

Non-current assets

Property, plant and equipment

The net book value of property, plant and equipment was approximately HK\$55.9 billion, increased by 7.7% over last year and was principally derived from the construction of LNG project in Tianjin Nangang of Beijing Gas.

Other intangible assets

Other intangible assets were mainly from EEW GmbH.

Investments in associates

The increase in balance by HK\$3.74 billion was mainly due to the share of profits from BE Water, PetroChina Beijing Pipeline Co., VCNG and China Gas as well as the asset value adjustment of Beijing Gas Blue Sky with reference to its share price.

Equity investments at fair value through other comprehensive income

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

Receivables under a finance lease

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

Financial asset at fair value through profit or loss

It mainly represented the fair value of Beijing Gas' investment in Beijing Guolian Energy Industrial Investment Fund (L.P.).

Prepayments, other receivables and other assets

The balance increased by HK\$951 million, which was mainly derived from the prepayments for construction from the LNG project in Tianjin Nangang of Beijing Gas.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Current assets

Inventories

It mainly represented the inventory balance of Yanjing Brewery.

Trade receivables

The balance increased by HK\$741 million, which was mainly due to the increase in account receivables of Beijing Gas from power factory users during the heating season.

Cash and Bank Borrowings

As at 31 December 2020, cash and bank deposits held by the Group amounted to HK\$29.12 billion. The Group maintains sufficient banking facilities for its working capital requirements and has sufficient cash resources to finance its capital expenditures in the foreseeable future.

The Group's total borrowings amounted to HK\$68.64 billion as at 31 December 2020, which comprised, inter alia, guaranteed bonds and senior notes of US\$2.5 billion in total, Euro guaranteed bonds amounting to EUR1.3 billion and bank loans of the Company's headquarter amounting to HK\$19.92 billion. Around 60.3% of the total borrowings were denominated in US and Hong Kong dollar and 27% in Euro. The Group had net borrowings of HK\$39.52 billion as at 31 December 2020, decreased by 5.0% year-one-year.

Non-current liabilities

Bank and other borrowings

There was an increase of HK\$4.04 billion in long-term and short-term balance in total, which was mainly due to the new bank loans by Beijing Gas for the year.

Guaranteed bonds and notes

During the year, the Group had issued Euro guaranteed green bonds of EUR500 million in exchange of the Euro guaranteed bonds in the same amount that was due. The balance was basically unchanged as compared with last year.

Provision for onerous contracts and major overhauls

The balances were mainly from EEW GmbH.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Current liabilities

Other payables, accruals and contract liabilities

The increase in balance of HK\$3.09 billion was mainly due to the increase in the receipt in advance and payables for construction from the LNG project in Tianjin Nangang of Beijing Gas.

Liquidity and Capital Resource

The downstream natural gas distribution business, plus the dividends income from PetroChina Beijing Pipeline Co., the dividends from BE Water, China Gas and EEW GmbH, have been constantly contributing to the operating cash flow of the Group and significantly increased its liquidity. As at the end of 2020, the issued capital of the Company amounted to 1,262,053,268 shares and the shareholders' equity was HK\$84.90 billion. Total equity was HK\$97.43 billion. The gearing ratio, that is all the interest-bearing borrowings, guaranteed bonds and notes divided by the sum of total equity plus all interest-bearing borrowings, guaranteed bonds and notes was 41% (2019: 42%).

Given the primarily cash nature business of natural gas distribution, brewery and water concession, the Group is benefiting from a very strong recurring cash flow and is well positioned to capture any investment opportunities in the future.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

LI Yongcheng, aged 59, is the Executive Director and Chairman of the Company. Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master's degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd. He is currently Vice Chairman and Executive Deputy General Manager of Beijing Enterprises Group Company Limited, and is also Chairman and Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). Mr. Li possesses extensive experience and professional expertise in public utilities industry, and also has plenty of experience in enterprise operations and capital operations. Mr. Li was Vice President of the Company from August 2007 to March 2011, and subsequently re-joined the Company as Executive Director in March 2014. He served as Executive Director and Vice Chairman from March 2016 to January 2021. He was re-designated as Executive Director and Chairman in February 2021.

JIANG Xinhao, aged 56, is the Executive Director and Vice Chairman of the Company. Mr. Jiang also serves as Vice General Manager of Beijing Enterprises Group Company Limited, Executive Director of Beijing Enterprises Water Group Limited (stock code: 371) as well as Non-executive Director of China Gas Holdings Limited (stock code: 384). Mr. Jiang is a chief senior economist. He graduated from Fudan University in 1987 with a bachelor's degree in law, then he served as a Policy Analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. In 1992, he was granted a master's degree in law at Fudan University. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a Deputy General Manager of Jingtai Finance Company in Hong Kong, and subsequently a Director and Vice President of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a Director and the Chief Executive Officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was Manager of the investment development department of Beijing Holdings Limited and General Manager of Beijing BHL Investment Center between May 2000 and February 2005. From January 2011 to June 2016, Mr. Jiang was Executive Director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Jiang has extensive experience in economics, finance and corporate management. Mr. Jiang joined the Group in February 2005. He was re-designated as Executive Director and Vice Chairman in February 2021.

ZHAO Xiaodong, aged 48, is the Executive Director and Vice Chairman of the Company. Mr. Zhao obtained a master's degree of mechanical manufacturing from Beijing University of Technology and once studied for a doctor's degree in management science and engineering at Beijing University of Technology. Mr. Zhao has joined Beijing Yan Jing Beer Group Company since 1998. He is currently Chairman of Beijing Yan Jing Beer Group Company and Chairman and General Manager of Beijing Yanjing Brewery Co., Ltd. (the shares of which are listed on the Shenzhen Stock Exchange with stock code: 000729). Mr. Zhao was appointed as Executive Director and Vice Chairman of the Company in September 2017.

DIRECTORS AND SENIOR MANAGEMENT

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

XIONG Bin, aged 54, is the Executive Director and CEO of the Company. He also serves as Assistant to General Manager of Beijing Enterprises Group Company Limited and Director of Beijing Gas Group Co., Ltd. Mr. Xiong is a PRC engineer. He graduated from the Department of Thermal Engineering of the School of Mechanical Engineering of Tongji University, and received an EMBA degree from the School of Economics and Management of the Tsinghua University. Mr. Xiong has joined Beijing Gas Group Co., Ltd. since 1999 from which he has obtained numerous years of experience in public infrastructure facilities management. Also, Mr. Xiong has joined Beijing Enterprises Group Company Limited since 2011 and by working at its Strategic Investment Department, he has enriched his experience in strategic and investment management skills. Mr. Xiong was appointed as Executive Director and Chief Executive Officer of the Company on 2 February 2021.

TAM Chun Fai, aged 58, is the Executive Director, Chief Financial Officer and Company Secretary of the Company. Mr. Tam also serves as the Independent Non-executive Director of Hi Sun Technology (China) Limited (stock code: 818) and KWG Property Holding Limited (stock code: 1813). Mr. Tam graduated from the Hong Kong Polytechnic University with a bachelor's degree in accountancy and is a regular member of Chartered Financial Analyst and a member of Hong Kong Institute of Certified Public Accountants. Mr. Tam has extensive experience in auditing and corporate advisory services with major international accounting firms. He was involved in floatation and audit work of a wide variety of businesses, including electronics, electrical appliances, athletic shoes manufacturing, banking, insurance, securities and property development. Mr. Tam joined the Group in April 1997 and has been involved in financial management, corporate finance, compliance and investor relationship function of the Group. Through his role as Independent Non-executive Director in Hi Sun Technology (China) Limited and KWG Property Holding Limited, Mr. Tam further enriches his experience in corporate governance and compliance work of listed companies in Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

WU Jiesi, aged 69, holds a doctorate degree in Economics. He is the Chairman of Fuhai Yintao Asset Management Co. Ltd., Independent Non-executive Director of China Citic Bank International Limited as well as Industrial and Commercial Bank of China (Asia) Limited; and Non-executive Director of Silver Base Group Holdings Limited (stock code: 886). He conducted post-doctoral research work in theoretical economics at the Nankai University in the PRC and was conferred the professorship qualification by the Nankai University in 2001. During the period from 1984 to 1995, Mr. Wu worked at the Industrial and Commercial Bank of China in a number of positions, including as the President of Shenzhen Branch. From 1995 to 1998, Mr. Wu was Vice Mayor of Shenzhen Municipal Government and from 1998 to 2000 he was the assistant to the Governor of Guangdong province. He was the Chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited, Non-executive Director of Shenzhen Investment Limited (stock code: 604) (from 2006 to 2020), and Independent Non-executive Director of China Taiping Insurance Holdings Company Limited (stock code: 966) (from 2000 to 2020). He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

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

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

DIRECTORS AND SENIOR MANAGEMENT

YU Sun Say, *G.B.M., J.P.*, aged 82. Dr. Yu is Chairman of the H.K.I. Group of companies, director of a number of manufacturing and investment companies, Independent Non-Executive Director of Tongda Group Holdings Limited (stock code: 698), Wong's International Holdings Limited (stock code: 99) and Fu Shek Financial Holdings Limited (stock code: 2263), member of the Standing Committee of the Chinese General Chamber of Commerce, Permanent Honorary President of the Chinese Manufacturers' Association of Hong Kong. Dr. Yu was member of the Standing Committee of the Chinese People's Political Consultative Conference as well as member of the Preparatory Committee for the Hong Kong Special Administrative Region and its Hong Kong Affairs Adviser. Dr. Yu joined the Group in March 2014.

SENIOR MANAGEMENT

ZHI Xiaoye, aged 53, is Vice President of the Company. Mr. Zhi also serves as General Manager of Beijing Gas Group Company Limited, and Non-Executive Director and Co-Chairman of Beijing Gas Blue Sky Holdings Limited (stock code: 6828). Mr. Zhi graduated from Beijing University of Technology with a master's degree in Management Science and Engineering, possesses the title of senior engineer, and had worked at Tokyo Gas in Japan as Researcher, at Beijing Gas Group Company Limited as transmission branch Manager, at Beijing Dingxin New Technology Company Limited (北京市鼎新新技术有限公司) as Chairman and at Beijing Gas Group Company Limited as Executive Deputy General Manager. Mr. Zhi has plenty of experience in pipe gas business and corporate management. Mr. Zhi was appointed as Vice President of the Company in July 2014.

KE Jian, aged 52, is Vice President of the Company. Mr. Ke also serves as an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371) and Chairman and CEO of Beijing Enterprises Environment Group Limited (stock code: 154). Mr. Ke is a PRC chief senior accountant, certified tax agent and senior international finance manager. Mr. Ke received a bachelor's degree in economics from Beijing College of Finance and Commerce and an MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration. He joined the Company in 1997 and was appointed as Vice President of the Company in April 2011.

SHA Ning, aged 50, is Vice President of the Company. Ms. Sha also serves as an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371), and an Executive Director and Vice President of Beijing Enterprises Environment Group Limited (stock code: 154). Ms. Sha graduated from the Business and Economics Faculty of Heilongjiang Institute of Commerce in 1992, and studied Accounting in Beijing School of Business and Capital University of Economics and Business. She obtained an EMBA degree from The Hong Kong University of Science and Technology, and was granted the title of PRC chief senior accountant. Ms. Sha has accumulated extensive experience in financial management. Ms. Sha joined the Group in 2001 and has been appointed as Vice President of the Company since January 2017.

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

REPORT OF THE DIRECTORS

The Board present their report and the audited financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Further discussion and analysis of the business review required by Schedule 5 to the Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the "Management Discussion and Analysis" set out on pages 8 to 19 of this Report. This discussion forms part of this "Report of the Directors".

EVENTS AFTER THE REPORTING PERIOD

Save for the event set out in note 50 to the financial statements, there is no significant event occurring after the reporting period.

KEY PERFORMANCE INDICATORS

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICIES AND PERFORMANCE *(Continued)*

In 2020, Beijing Gas continued to work proactively with Beijing Municipal Government to implement the Clean Air Action Plan, and provided diversified gas supply channels, established clean energy supply chains and enhanced capacity to ensure stable natural gas supply for the capital city through facilitating the LNG storage projects, so as to play an important role in promoting the application of clean energy.

Facing the increasingly stringent environmental protection and emission standards, the Company has carried out continuous technological innovation and management improvement for its solid waste treatment business, so as to improve its solid waste treatment efficiency and reduce emissions in projects and daily operations. As at the end of 2020, the solid waste treatment business segment of the Group realised a waste incineration and power generation integrated treatment capacity of 29,932 tons/day and our hazardous waste treatment capacity had reached 115,000 tons/year.

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

RELATIONSHIP WITH STAKEHOLDERS

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

REPORT OF THE DIRECTORS

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

REPORT OF THE DIRECTORS

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

REPORT OF THE DIRECTORS

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2020 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 62 to 206.

An interim dividend of HK40 cents per ordinary share was paid on 28 October 2020. The Board recommended the payment of a final dividend of HK74 cents per share for the year ended 31 December 2020 payable to Shareholders on the register of members of the Company on 15 July 2021. Subject to the approval of Shareholders at the 2021 AGM, the final dividend will be paid on 26 July 2021.

AGM

The 2021 AGM will be held on Thursday, 17 June 2021. The notice of the 2021 AGM, which constitutes part of the circular to Shareholders, will be sent to all Shareholders separately and will be published on the Company's website (www.behl.com.hk) and the HKSE's website (www.hkexnews.hk).

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining Shareholders' eligibility to attend and vote at the 2021 AGM, and entitlement to the final dividend, the register of members will be closed. Details of such closures are set out below:

- (i) For determining eligibility to attend and vote at the 2021 AGM:

Latest time to lodge transfer documents for registration 4:30 pm on Thursday, 10 June 2021

Closure of register of members Friday, 11 June 2021 to
Thursday, 17 June 2021
(both dates inclusive)

2021 AGM Thursday, 17 June 2021

REPORT OF THE DIRECTORS

CLOSURE OF REGISTER OF MEMBERS *(Continued)*

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration 4:30 pm on Friday, 9 July 2021

Closure of register of members Monday, 12 July 2021 to
Thursday, 15 July 2021
(both dates inclusive)

Record date Thursday, 15 July 2021

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2021 AGM, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

EMPLOYEES

As at 31 December 2020, the Group had approximately 39,000 employees. The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Group's employee remuneration policy and package are periodically reviewed by the management. Apart from pension funds, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and equity of the Group for the last five financial years as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2019 is set out on pages 207 to 208. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

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

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

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2020, the Company's reserves available for distribution, calculated in accordance with the provisions of part 6 of the Companies Ordinance amounted to HK\$933,919,000 (2019: HK\$933,919,000).

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

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

DIRECTORS

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

Executive Directors

LI Yongcheng	
JIANG Xinhao	
ZHAO Xiaodong	
DAI Xiaofeng	(appointed on 2 February 2021)
XIONG Bin	(appointed on 2 February 2021)
TAM Chun Fai	
E Meng	(resigned on 3 January 2020)
HOU Zibo	(resigned on 2 February 2021)

Independent Non-executive Directors

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

REPORT OF THE DIRECTORS

DIRECTORS OF SUBSIDIARIES

The names of directors who have served on the boards of the principal subsidiaries of the Company during the financial year ended 31 December 2020 or during the period from 1 January 2021 up to the date of this Report are available on the Company's website (www.behl.com.hk).

BOARD CHANGES AND CHANGES IN DIRECTORS' INFORMATION

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

On 3 January 2020:

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

On 21 January 2020:

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

On 2 February 2021:

- (i) Mr. Hou Zibo resigned as Executive Director, Chairman of the Board and Chief Executive Officer, Chairman of the Nomination Committee, member of the Remuneration Committee and Chairman of the Investment Committee;
- (ii) Executive Director and Vice Chairman of the Board, Mr. Li Yongcheng has been re-designated as Executive Director and Chairman of the Board, and replaced Mr. Hou Zibo to hold the positions of Chairman of the Nomination Committee, member of the Remuneration Committee and Chairman of the Investment Committee;
- (iii) Executive Director and Vice President, Mr. Jiang Xinhao has been re-designated as Executive Director and Vice Chairman of the Board, and remains as member of the Investment Committee;
- (iv) Vice President, Mr. Dai Xiaofeng has been re-designated as Executive Director; and
- (v) Mr. Xiong Bin has been appointed as Executive Director and Chief Executive Officer.

REPORT OF THE DIRECTORS

BOARD CHANGES AND CHANGES IN DIRECTORS' INFORMATION *(Continued)*

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

	Date of Appointment	Date of Resignation
Dr. Yu Sun Say Fu Shek Financial Holdings Limited <i>(Note 1)</i> Independent Non-executive Director	19 February 2020	
Mr. Wu Jiesi Shenzhen Investment Limited <i>(Note 2)</i> Non-executive Director		14 September 2020
China Taiping Insurance Holdings Company Limited <i>(Note 3)</i> Independent Non-executive Director		30 September 2020

Note 1: a company listed on the Hong Kong Stock Exchange (stock code: 2263)

Note 2: a company listed on the Hong Kong Stock Exchange (stock code: 604)

Note 3: a company listed on the Hong Kong Stock Exchange (stock code: 966)

In accordance with articles 98 and 107 of the Articles of Association and the recommendation of the Board, Mr. Zhao Xiaodong, Mr. Dai Xiaofeng, Mr. Xiong Bin, Mr. Tam Chun Fai and Dr. Yu Sun Say will retire and, being eligible, will offer themselves for reelection at the 2021 AGM.

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

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the Senior Management are set out on pages 20 to 23 of this Report.

DIRECTOR'S SERVICE CONTRACT

No Director proposed for re-election at the 2021 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

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

Further details of the Remuneration Committee are set out in the Corporate Governance Report on pages 40 to 52 of this Report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS & CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

REPORT OF THE DIRECTORS

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

At 31 December 2020, the interests and short positions of the Directors and the Chief Executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the HKSE pursuant to the Model Code, were as follows:

(A) LONG POSITIONS IN SHARES OF THE COMPANY

Director	Number of ordinary shares directly beneficially owned	Percentage of the Company's total number of issued shares
Jiang Xinhao	20,000	0.002%
Tam Chun Fai	2,000	0.000%

(B) LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

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

(C) LONG POSITIONS IN SHARES OF ASSOCIATED CORPORATIONS

Director	Associated corporation	Number of ordinary shares directly beneficially owned	Percentage of the associated corporations' total number of issued shares
Tam Chun Fai	BE Environment [®]	50,000	0.003%
Sze Chi Ching	BE Water [®]	500,000	0.005%
Yu Sun Say	BE Water [®]	100,000	0.001%

[®] As at 31 December 2020, all interests in these corporations owned by the Company are indirectly held.

REPORT OF THE DIRECTORS

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

(D) LONG POSITIONS IN UNDERLYING SHARES OF ASSOCIATED CORPORATIONS

No director and chief executive held any interest in underlying shares of associated corporations of the Company.

Save as disclosed above, as at 31 December 2020, none of the Directors or the Chief Executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the HKSE pursuant to the Model Code.

SHARE OPTION SCHEME

The Company currently does not have any share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

REPORT OF THE DIRECTORS

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

At 31 December 2020, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long Positions:

Name	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's total number of issued shares
	Directly beneficially owned	Others	Total	
BHL	4,000,000	–	4,000,000	0.32%
MOL	100,050,000	–	100,050,000	7.93%
BEIL	163,730,288	100,050,000 ^(a)	263,780,288	20.90%
BE Group BVI	518,187,500	263,780,288 ^(b)	781,967,788	61.96%
BE Group	–	785,967,788 ^(c)	785,967,788	62.28%

Notes:

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

Save as disclosed above, as at 31 December 2020, no person, other than the Directors, whose interests are set out in the section “Directors’ and Chief Executive’s Interests and Short Positions in Shares and Underlying Shares” above, had registered an interest or a short position in the shares or underlying shares of the Company that was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

Exceeding the Annual Cap on 1 January 2020

Reference is made to the announcement dated 20 December 2019 of the Company in relation to, among other things, the Deposit Agreement. On 1 January 2020, the cumulative daily outstanding deposits balance placed by the Group with Beijing Enterprises Group Finance Co., Ltd. (including any interest accrued thereon) was HK\$2,876,600,000, which was HK\$646,600,000 more than the 2020 annual cap of HK\$2,230,000,000 stipulated in the announcement dated 20 December 2019 of the Company. It was mainly due to the failure of making timely adjustment to the deposit amount on 1 January 2020 when it was a public holiday. Except that, there was no reoccurrence of exceeding the annual cap.

Opinion from the Independent Non-executive Directors

The Independent Non-executive Directors have reviewed and confirmed that the continuing connected transactions undertaken by the Group were (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the agreements governing them (except the continuing connected transactions as disclosed in the section headed “Exceeding the Annual Cap on 1 January 2020” above), on terms that are fair and reasonable and in the interests of the Company’s shareholders as a whole.

Opinion from the Independent Auditor

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

Unqualified Conclusion

The Company’s auditor has expressed their unqualified conclusion that:

- i) nothing has come to their attention that the relevant continuing connected transactions have not been approved by the Company’s board of directors;
- ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditor to believe that the relevant continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group; and
- iii) nothing has come to their attention that causes the auditor to believe that the relevant continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

Qualified Conclusion

The Company’s auditor has expressed their qualified conclusion: with respect to the aggregate amount of each of the continuing connected transactions set out in note 46 to the financial statements, based on the procedures performed and the evidence obtained by the auditor, except for the continuing connected transaction described in the section headed “Exceeding the Annual Cap on 1 January 2020” above which has exceeded the relevant annual cap, nothing has come to their attention that causes the auditor to believe that the continuing connected transactions have exceeded the annual caps as set by the Company.

REPORT OF THE DIRECTORS

SPECIFIC PERFORMANCE OBLIGATIONS OF THE CONTROLLING SHAREHOLDERS

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

Date of the Agreement(s)	Nature of the Agreement(s)	Aggregate amount (million)	Final Maturity
5 May 2011	Purchase agreement for issuance of senior notes	US\$600	May 2021
5 May 2011	Purchase agreement for issuance of senior notes	US\$400	May 2041
18 April 2012	Purchase agreement for issuance of senior notes	US\$800	April 2022
1 December 2015	Subscription agreement for issuance of bonds	US\$200	December 2040
24 June 2016	Term loan facility with a bank	HK\$4,000	June 2021
22 November 2016	Term loan facility with a bank	HK\$3,000	November 2021
7 December 2016	Term loan facility with a bank	HK\$1,940	December 2021
12 April 2017	Subscription agreement for issuance of bonds	EUR800	April 2022
13 July 2017	Term loan facility with a bank	HK\$4,000	July 2022
17 July 2018	Term loan facility with a bank	EUR350	July 2023
17 September 2020	Subscription agreement for issuance of bonds	EUR500	September 2025
23 November 2020	Term loan facilities with respective banks	HK\$4,000	November 2025
18 February 2021	Term loan facility with a bank	HK\$2,000	February 2026

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

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

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

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

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

MANAGEMENT CONTRACTS

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during 2020.

DONATIONS

The Group's charitable donations during the year were approximately HK\$25,744,000.

EQUITY-LINKED AGREEMENTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

Ernst & Young retire and a resolution for their reappointment as the auditor of the Company will be proposed at the 2021 AGM.

ON BEHALF OF THE BOARD

Li Yongcheng
Chairman

Hong Kong
31 March 2021

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Save as disclosed below, the Board believes that during the year ended 31 December 2020, the Company has complied with the code provisions (the “Code Provisions”) as set out in Appendix 14 to the Listing Rules.

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

The former Chairman, Mr. Hou Zibo has assumed the positions of Chairman and CEO from 1 September 2017 to 1 February 2021. This arrangement deviates from Code Provision A.2.1 which recommends that the roles of chairman and chief executive should be separate and should not be performed by the same individual. However, the Board considers that the appointment of Mr. Hou Zibo as Chairman and CEO during that time can bring benefits to the Company’s business development and management, and would not impair the balance of power and authority between the Board and the management of the Company. Since 2 February 2021, the positions of Chairman and CEO have been assumed by Executive Director Mr. Li Yongcheng and Executive Director Mr. Xiong Bin, respectively. Since then, the Company has not deviated from Code Provision A.2.1.

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

Due to other business engagements, the former Chairman of the Board was unable to attend the annual general meeting of the Company held on 18 June 2020, which deviates from Code Provision E.1.2. However, the former Chairman had arranged other directors to attend the meeting and communicate with shareholders.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for securities transactions by the Directors. All the Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2020.

CORPORATE GOVERNANCE REPORT

THE BOARD

Board Diversity Policy

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

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

Composition and Role

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

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

CORPORATE GOVERNANCE REPORT

THE BOARD *(Continued)*

Composition and Role *(Continued)*

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

Name	Attendance ¹					
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Investment Committee Meeting	Annual General Meeting
Executive Directors						
Li Yongcheng	1/2					
Jiang Xinhao	2/2				0/0	
Zhao Xiaodong	2/2					
Tam Chun Fai	2/2					1/1
E Meng ²	0/2					
Hou Zibo ³	2/2		1/1	1/1	0/0	0/1
Independent Non-executive Directors						
Wu Jiesi	2/2	2/2	1/1			0/1
Lam Hoi Ham	2/2	2/2	1/1	1/1	0/0	1/1
Sze Chi Ching	2/2					1/1
Yu Sun Say	2/2	2/2		1/1	0/0	0/1
Ma She ⁴	0/2	0/2		0/1	0/0	0/1

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

² Resigned on 3 January 2020.

³ Resigned on 2 February 2021.

⁴ Resigned on 21 January 2020.

CORPORATE GOVERNANCE REPORT

THE BOARD *(Continued)*

Directors' Training

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

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

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

Name		Attend Seminars/ Read Training Materials
Executive Directors		
Li Yongcheng		✓
Jiang Xinhao		✓
Zhao Xiaodong		–
Tam Chun Fai		✓
E Meng	<i>(resigned on 3 January 2020)</i>	N/A
Hou Zibo	<i>(resigned on 2 February 2021)</i>	✓
Independent Non-executive Directors		
Wu Jiesi		✓
Lam Hoi Ham		✓
Sze Chi Ching		✓
Yu Sun Say		✓
Ma She	<i>(resigned on 21 January 2020)</i>	N/A

CORPORATE GOVERNANCE REPORT

THE BOARD *(Continued)*

Non-executive Directors

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

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

Name	Term of Appointment
Wu Jiesi	3 years from 1 April 2018
Lam Hoi Ham	3 years from 1 April 2018
Sze Chi Ching	3 years from 28 March 2019
Yu Sun Say	3 years from 31 March 2020

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

Corporate Governance Functions

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

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The current members of the Audit Committee are:

Mr. Lam Hoi Ham – Committee Chairman

Mr. Wu Jiesi

Dr. Yu Sun Say

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

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

REMUNERATION COMMITTEE

The current members of the Remuneration Committee are:

Mr. Wu Jiesi – Committee Chairman

Mr. Lam Hoi Ham

Mr. Li Yongcheng

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

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE *(Continued)*

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

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

NOMINATION COMMITTEE

The current members of the Nomination Committee are:

Mr. Li Yongcheng – Committee Chairman
Mr. Lam Hoi Ham
Dr. Yu Sun Say

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

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

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE *(Continued)*

Nomination Criteria:

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

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

Nomination Procedures:

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

CORPORATE GOVERNANCE REPORT

INVESTMENT COMMITTEE

The current members of the Investment Committee are:

Mr. Li Yongcheng – Committee Chairman
Mr. Jiang Xinhao
Mr. Lam Hoi Ham
Dr. Yu Sun Say

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

AUDITORS' REMUNERATION

During the year ended 31 December 2020, fees paid and payable by the Company to the external auditor of the Company and the external auditor of an associate are analysed as follows:

	HK\$'000
Annual audit service fees paid and payable to:	
Auditor of the Company	10,700
Auditor of an associate	5,300
Non-audit service fees paid and payable to auditor of the Company*	5,259
	21,259

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

DIRECTORS' AND AUDITOR'S RESPONSIBILITY STATEMENTS

The Directors acknowledged responsibility for reviewing the accounts of the Company prepared by the Executive Directors for the year ended 31 December 2020 and ensuring the accounts are prepared in accordance with the HKFRSs. A statement by the auditor about their reporting responsibilities is contained in the Independent Auditor's Report.

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

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

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

Main Features of the Risk Management and Internal Control Systems

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

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

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

Process Used to Identify, Evaluate and Manage Significant Risks

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

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

The Internal Audit Department has conducted a review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2020 and reported the review results to the Audit Committee.

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

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

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

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

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

COMPANY SECRETARY

The Executive Director and Chief Financial Officer, Mr. Tam Chun Fai, has been the Company Secretary of the Company since 1997. During the year 2020, Mr. Tam took no less than 15 hours of relevant professional training as required by Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

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

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

The written requisition:

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

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

To Make Enquiries to the Board

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

To Put forward Proposals at an AGM

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

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

The written requisition:

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

Circulating a Statement at an AGM or at a General Meeting

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

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

The request –

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

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

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

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2020 there was no significant change in the Company's constitutional documents.

DIVIDEND POLICY

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

INDEPENDENT AUDITOR'S REPORT



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To the members of Beijing Enterprises Holdings Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Beijing Enterprises Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 62 to 206, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

INDEPENDENT AUDITOR'S REPORT



KEY AUDIT MATTERS

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

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

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of goodwill

At 31 December 2020, the goodwill carried in the Group's financial statements was approximately HK\$16.8 billion.

Management is required to perform a test on goodwill for impairment at least on an annual basis. This test is largely based on management expectations, assumptions and estimates of future results of the cash-generating units to which the goodwill has been allocated. The assumptions are affected by expectations of future market or economic conditions. The impairment test is based on the comparison between the recoverable amounts of the relevant cash-generating units, and their respective carrying amounts.

Given the complexity and judgemental nature of the impairment testing, management engaged an independent external valuer to prepare the valuation models to assist with the impairment assessment. Accordingly, this is identified as a key audit matter.

The related disclosures are included in notes 2.4, 3 and 17 to the consolidated financial statements.

We considered the competency, capabilities and objectivity of the independent professional valuer engaged by the management and involved our internal valuation specialists to assist us in evaluating the methodology and key assumptions adopted in the impairment assessments. We evaluated management expectations, assumptions and estimates of future results of the cash-generating units used in the valuation models by (i) testing the assumptions used in the cash flow forecasts; (ii) comparing the historical forecast with actual results; and (iii) obtaining corroborative evidence to support the growth assumptions. We carried out audit procedures on management's sensitivity calculations. We also assessed the adequacy of the disclosures for the impairment testing in the consolidated financial statements, specifically the key assumptions with the most significant effect on the determination of the recoverable amounts, such as the discount rates and growth rates.

INDEPENDENT AUDITOR'S REPORT



KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of certain non-current non-financial assets

Certain of the Group's brewery plants have been loss-making for some time and, during the year, there was an adverse change in the government policy in connection with the Group's solid waste treatment operation in Mainland China and the operations of a solid waste incineration plant in Mainland China continued to be suspended under a local government's instruction. These events constituted impairment indications of the non-current assets attributable to the relevant cash-generating units. The carrying amounts of property, plant and equipment, right-of-use assets, operating concessions and other intangible assets of the relevant cash-generating units amounted to approximately HK\$4.7 billion, HK\$405 million, HK\$4.4 billion and HK\$134 million as at 31 December 2020, respectively.

The Group is required to perform impairment assessment on an asset if there is an indicator that the recoverable amount of the asset may be lower than its carrying amount. The Group performed an impairment assessment of these assets in accordance with Hong Kong Accounting Standard ("HKAS") 36 *Impairment of Assets*.

In this regard, the Group engaged an independent professional valuer to assist it in the estimation of the recoverable amounts of the relevant assets or related cash-generating units, which are the higher of the value in use and the fair value less costs of disposal. An impairment loss is recognised only if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

We evaluated the assumptions and data used by the Group in the impairment assessment of these assets, and involved our internal valuation specialists to assist us in evaluating the methodology and key assumptions adopted by the independent professional valuer for the impairment assessment and the fair value used in the recoverable amount calculation. As part of our audit procedures, we considered the competence, capabilities and objectivity of the independent professional valuer. We also assessed the adequacy of the related disclosures in the notes to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT



KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of certain non-current non-financial assets (Continued)

The value in use basis requires, inter alia, management's estimation on the expected future cash flows from the assets and a suitable discount rate in order to calculate the present value of those cash flows; while the fair value less costs of disposal basis requires, inter alia, estimation of the prices at which an orderly transaction to sell these assets would take place.

Given the complexity and judgemental nature of the impairment test, we considered this a key audit matter.

Related disclosures are included in notes 2.4, 3, and 20 to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT



KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Estimation in revenue recognition in relation to piped gas operation

The recognition of revenue generated from piped gas operation depends on (i) the estimated volume of gas sold during the period between the date of the last meter reading and the year end; and (ii) the estimated volume of gas sold from the prepaid meter.

Judgements are involved to determine the unread volume of gas sold to measure revenue. The Group's accrued revenue is estimated based on the billed volume from the latest meter reading period and the prepaid revenue is estimated based on the advance from customers, adjusted by the location and nature of customers.

Related disclosures are included in notes 2.4 and 3 to the consolidated financial statements.

We understood, evaluated and tested the key controls of the Group in respect of revenue recognition for the sale of piped natural gas.

We evaluated management's estimation by comparing the subsequent actual bills with estimated revenue. We also performed substantive testing on the source data and reviewed the calculation of accrued revenue.

In addition, we performed analytical review on the overall financial performance, including monthly sales analysis by types of customer, gross profit margin analysis and recoverability analysis. We obtained explanations for material differences from our expectation formed with reference to growth of customer base and seasonal factors of current year.

INDEPENDENT AUDITOR'S REPORT



OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

INDEPENDENT AUDITOR'S REPORT



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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT



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

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

INDEPENDENT AUDITOR'S REPORT



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

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

The engagement partner on the audit resulting in this independent auditor's report is CHENG Man.

Ernst & Young
Certified Public Accountants
Hong Kong

31 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
REVENUE	5	68,407,443	67,783,028
Cost of sales		(57,542,546)	(56,836,891)
Gross profit		10,864,897	10,946,137
Gains on deemed disposal of partial interests in associates	22(a)	–	338,115
Other income and gains, net	6	1,811,336	1,387,500
Selling and distribution expenses		(2,028,737)	(2,066,966)
Administrative expenses		(4,723,212)	(4,846,395)
Other operating expenses, net		(2,247,954)	(978,673)
Finance costs	7	(1,998,037)	(2,194,968)
Share of profits and losses of:			
Joint ventures		16,565	28,810
Associates	22(b), (c)	4,958,399	6,982,418
PROFIT BEFORE TAX	8	6,653,257	9,595,978
Income tax	11	(1,006,794)	(1,022,369)
PROFIT FOR THE YEAR		5,646,463	8,573,609
ATTRIBUTABLE TO:			
Shareholders of the Company		5,286,888	8,054,780
Non-controlling interests		359,575	518,829
		5,646,463	8,573,609
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
Basic and diluted	13	HK\$4.19	HK\$6.38

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
PROFIT FOR THE YEAR		5,646,463	8,573,609
OTHER COMPREHENSIVE INCOME/(LOSS)			
<i>Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		4,315,091	(741,233)
Share of other comprehensive income/(loss) of associates		1,961,382	(678,817)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		6,276,473	(1,420,050)
<i>Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:</i>			
Defined benefit obligations:			
Actuarial losses	36(b)	(32,704)	(193,323)
Income tax effect	39	13,059	59,650
		(19,645)	(133,673)
Equity investments at fair value through other comprehensive income:			
Changes in fair value		(175,614)	355,682
Income tax effect	39	132,218	(70,901)
		(43,396)	284,781
Share of other comprehensive loss of associates		(69,994)	(16,037)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		(133,035)	135,071
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		6,143,438	(1,284,979)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		11,789,901	7,288,630
ATTRIBUTABLE TO:			
Shareholders of the Company		10,676,811	6,954,047
Non-controlling interests		1,113,090	334,583
		11,789,901	7,288,630

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	14	55,910,968	51,898,919
Investment properties	15	1,189,696	1,131,346
Right-of-use assets	16(b)	2,136,712	2,839,886
Goodwill	17	16,762,006	16,332,072
Operating concessions	18	4,248,848	3,783,828
Other intangible assets	19	3,394,102	3,373,759
Investments in joint ventures	21	392,516	327,691
Investments in associates	22	60,982,149	57,244,835
Equity investments at fair value through other comprehensive income	23	3,233,117	3,284,217
Financial asset at fair value through profit or loss	24	2,400,086	2,265,249
Receivables under service concession arrangements	18	2,966,895	2,380,255
Receivable under a finance lease	16(a)	702,343	738,296
Prepayments, other receivables and other assets	27	1,889,176	937,969
Deferred tax assets	39	1,799,088	1,638,766
Total non-current assets		158,007,702	148,177,088
Current assets:			
Inventories	25	5,143,960	5,189,188
Receivables under service concession arrangements	18	110,388	97,552
Receivable under a finance lease	16(a)	98,535	84,707
Trade receivables	26	6,770,865	6,029,450
Prepayments, other receivables and other assets	27	4,743,928	3,638,798
Other tax recoverables		531,641	393,871
Financial assets at fair value through profit or loss	24	238,095	–
Restricted cash and pledged deposits	29	36,879	36,701
Cash and cash equivalents	30	29,122,428	22,158,921
Total current assets		46,796,719	37,629,188
TOTAL ASSETS		204,804,421	185,806,276

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	31	30,401,883	30,401,883
Reserves	33(a)	54,495,223	44,879,756
		84,897,106	75,281,639
Non-controlling interests		12,528,616	11,733,188
TOTAL EQUITY		97,425,722	87,014,827
Non-current liabilities:			
Bank and other borrowings	34	21,770,556	25,765,222
Guaranteed bonds and notes	35	26,861,083	26,268,062
Lease liabilities	16(b)	608,805	684,279
Defined benefit obligations	36(b)	2,591,259	2,270,816
Provision for major overhauls and onerous contracts	37	410,290	355,576
Other non-current liabilities	38	1,954,380	1,823,219
Deferred tax liabilities	39	2,654,242	2,576,094
Total non-current liabilities		56,850,615	59,743,268

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Current liabilities:			
Trade and bills payables	40	4,700,433	4,508,343
Other payables, accruals and contract liabilities	41	24,321,243	21,235,911
Provision for major overhauls and onerous contracts	37	53,723	49,525
Income tax payables		958,514	981,218
Other tax payables		367,672	374,237
Bank and other borrowings	34	15,398,065	7,361,029
Guaranteed bonds and notes	35	4,611,320	4,373,180
Lease liabilities	16(b)	117,114	164,738
Total current liabilities		50,528,084	39,048,181
TOTAL LIABILITIES		107,378,699	98,791,449
TOTAL EQUITY AND LIABILITIES		204,804,421	185,806,276

Li Yongcheng
Director

Tam Chun Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Notes	Attributable to shareholders of the Company									Non-controlling interests HK\$'000	Total equity HK\$'000
		Share capital HK\$'000	Capital reserve HK\$'000 (note 33(b))	Investment revaluation reserve HK\$'000	Property revaluation reserve HK\$'000	Defined benefit plans reserve HK\$'000	Exchange fluctuation reserve HK\$'000	PRC reserve funds HK\$'000 (note 33(c))	Retained profits HK\$'000	Total HK\$'000		
At 1 January 2019		30,401,883	1,278,748	(75,628)	84,051	(88,523)	(3,013,799)	11,151,013	29,934,872	69,672,617	11,342,755	81,015,372
Profit for the year		-	-	-	-	-	-	-	8,054,780	8,054,780	518,829	8,573,609
Other comprehensive income/(loss) for the year:												
Exchange differences on translation of foreign operations		-	-	-	-	-	(559,152)	-	-	(559,152)	(182,081)	(741,233)
Defined benefit obligations:												
Actuarial losses	36(b)	-	-	-	-	(190,490)	-	-	-	(190,490)	(2,833)	(193,323)
Income tax effect	39	-	-	-	-	58,982	-	-	-	58,982	668	59,650
Equity investments at fair value through other comprehensive income:												
Changes in fair value		-	-	355,682	-	-	-	-	-	355,682	-	355,682
Income tax effect	39	-	-	(70,901)	-	-	-	-	-	(70,901)	-	(70,901)
Share of other comprehensive loss of associates		-	-	(14,479)	-	(1,558)	(678,817)	-	-	(694,854)	-	(694,854)
Total comprehensive income/(loss) for the year		-	-	270,302	-	(133,066)	(1,237,969)	-	8,054,780	6,954,047	334,583	7,288,630
Acquisition of subsidiaries	43	-	-	-	-	-	-	-	-	-	439,963	439,963
Deregistration of subsidiaries		-	-	-	-	-	-	-	-	-	(72,803)	(72,803)
Share of reserves of associates		-	81,095	-	-	-	-	-	-	81,095	-	81,095
Final 2018 dividend		-	-	-	-	-	-	-	(921,299)	(921,299)	-	(921,299)
Interim 2019 dividend	12	-	-	-	-	-	-	-	(504,821)	(504,821)	-	(504,821)
Dividends paid to non-controlling equity holders of subsidiaries		-	-	-	-	-	-	-	-	-	(311,310)	(311,310)
Transfer to PRC reserve funds		-	-	-	-	-	-	1,168,278	(1,168,278)	-	-	-
At 31 December 2019 and 1 January 2020		30,401,883	1,359,843*	194,674*	84,051*	(221,589)*	(4,251,768)*	12,319,291*	35,395,254*	75,281,639	11,733,188	87,014,827
Profit for the year		-	-	-	-	-	-	-	5,286,888	5,286,888	359,575	5,646,463
Other comprehensive income/(loss) for the year:												
Exchange differences on translation of foreign operations		-	-	-	-	-	3,552,153	-	-	3,552,153	762,938	4,315,091
Defined benefit obligations:												
Actuarial losses	36(b)	-	-	-	-	(31,489)	-	-	-	(31,489)	(1,215)	(32,704)
Income tax effect	39	-	-	-	-	12,780	-	-	-	12,780	279	13,059
Equity investments at fair value through other comprehensive income:												
Changes in fair value		-	-	(167,127)	-	-	-	-	-	(167,127)	(8,487)	(175,614)
Income tax effect	39	-	-	132,218	-	-	-	-	-	132,218	-	132,218
Share of other comprehensive income/(loss) of associates		-	-	(70,837)	-	843	1,961,382	-	-	1,891,388	-	1,891,388
Total comprehensive income/(loss) for the year		-	-	(105,746)	-	(17,866)	5,513,535	-	5,286,888	10,676,811	1,113,090	11,789,901
Capital contribution from non-controlling equity holders of subsidiaries		-	-	-	-	-	-	-	-	-	73,708	73,708
Acquisition of non-controlling interests		-	(1,684)	-	-	-	-	-	-	(1,684)	(52,344)	(54,028)
Share of reserves of associates		-	379,080	(16,394)	-	-	-	-	16,394	379,080	-	379,080
Final 2019 dividend	12	-	-	-	-	-	-	-	(933,919)	(933,919)	-	(933,919)
Interim 2020 dividend	12	-	-	-	-	-	-	-	(504,821)	(504,821)	-	(504,821)
Dividends paid to non-controlling equity holders of subsidiaries		-	-	-	-	-	-	-	-	-	(339,026)	(339,026)
Transfer to PRC reserve funds		-	-	-	-	-	-	1,141,958	(1,141,958)	-	-	-
At 31 December 2020		30,401,883	1,737,239*	72,534*	84,051*	(239,455)*	1,261,767*	13,461,249*	38,117,838*	84,897,106	12,528,616	97,425,722

* These reserve accounts comprise the consolidated reserves of HK\$54,495,223,000 (2019: HK\$44,879,756,000) in the consolidated statement of financial position as at 31 December 2020.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		6,653,257	9,595,978
Adjustments for:			
Bank interest income	6	(605,049)	(254,723)
Finance income on the net investment in a finance lease	6	(59,526)	(61,516)
Transfer of assets from customers	6	(58,851)	(115,914)
Loss/(gain) on disposal of items of property, plant and equipment, net	6, 8	47,031	(2,240)
Gains on deemed disposal of partial interests in associates	22(a)	–	(338,115)
Dividend income of equity investments at fair value through other comprehensive income	6	(67,913)	(49,402)
Investment income of a financial asset at fair value through profit or loss	6	(154,128)	(160,284)
Finance costs	7	1,998,037	2,194,968
Depreciation of items of property, plant and equipment	8	3,816,942	3,592,541
Depreciation of right-of-use assets	8	169,381	198,898
Amortisation of operating concessions	8	155,903	131,863
Amortisation of other intangible assets	8	337,566	235,434
Impairment of items of property, plant and equipment	14	92,941	–
Impairment of right-of-use assets	16(b)	25,184	–
Impairment of goodwill	17	438,300	81,118
Impairment of operating concessions	18	596,645	158,889
Impairment of other intangible assets	19	55,123	–
Impairment/(reversal of impairment) of trade receivables, net	8	55,541	(56,825)
Impairment of other receivables, net	8	1,422	205,253
Write-down of inventories to net realisable value	8	34,151	–
Share of profits and losses of joint ventures and associates		(4,974,964)	(7,011,228)
Operating profit before working capital changes		8,556,993	8,344,695

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES <i>(Continued)</i>		
Operating profit before working capital changes	8,556,993	8,344,695
Decrease/(increase) in inventories	305,312	(127,907)
Increase in receivables under service concession arrangements	(426,596)	(252,743)
Increase in trade receivables	(354,046)	(699,510)
Decrease/(increase) in prepayments, other receivables and other assets	(1,249,147)	7,777
Decrease/(increase) in other tax recoverables	(106,832)	215,111
Increase/(decrease) in trade and bills payables	(177,806)	145,647
Increase/(decrease) in other payables, accruals and contract liabilities	1,410,733	(41,470)
Decrease in other tax payables	(24,313)	(66,968)
Increase in provision for major overhauls and onerous contracts	23,088	21,508
Increase in defined benefit obligations	119,937	119,247
Increase in other non-current liabilities	713,371	9,841
Cash generated from operations	8,790,694	7,675,228
Finance income on the net investment in a finance lease received	59,526	61,516
Mainland China income tax paid	(686,138)	(1,046,245)
Overseas income tax paid	(426,249)	(160,904)
Net cash flows from operating activities	7,737,833	6,529,595

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(6,746,175)	(4,256,794)
Proceeds from disposal of items of property, plant and equipment		310,214	123,833
Receipt of assets-related governments grants		1,697,734	893,972
Additions to operating concessions		(985,018)	(1,237,298)
Additions to other intangible assets		(156,571)	(72,224)
Acquisition of subsidiaries	43	35,732	821,298
Increase in investments in joint ventures and associates		(25,130)	(1,216,314)
Decrease/(increase) in time deposits with maturity of more than three months when acquired		5,742	(113,643)
Decrease in restricted cash and pledged deposits		1,920	2,639
Purchases of financial assets at fair value through profit or loss		(224,719)	–
Proceeds from disposal of an equity investment at fair value through other comprehensive income		25,729	–
Dividends received from associates		3,811,593	3,837,503
Dividend income of equity investments at fair value through other comprehensive income received		67,913	49,402
Investment income of a financial asset at fair value through profit or loss received		154,128	160,284
Bank interest income received		605,049	254,723
Net cash flows used in investing activities		(1,421,859)	(752,619)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders of subsidiaries		73,708	–
Acquisition of non-controlling interests		(54,028)	–
Proceeds from issue of guaranteed bonds, net of issuance costs		4,452,971	–
Repayment of guaranteed bonds		(4,500,000)	–
New loans		17,145,284	4,805,563
Repayment of loans		(14,126,320)	(1,913,743)
Principal portion of lease payments	16(b)	(133,647)	(288,530)
Interest portion of lease payments	16(b)	(28,993)	(45,573)
Other interest paid		(1,936,532)	(2,150,720)
Dividends paid		(1,438,740)	(1,426,120)
Dividends paid to non-controlling equity holders of subsidiaries		(339,026)	(311,310)
Net cash flows used in financing activities		(885,323)	(1,330,433)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	<i>Note</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
NET INCREASE IN CASH AND CASH EQUIVALENTS		5,430,651	4,446,543
Cash and cash equivalents at beginning of year		22,020,604	17,909,131
Effect of foreign exchange rate changes, net		1,530,707	(335,070)
CASH AND CASH EQUIVALENTS AT END OF YEAR		28,981,962	22,020,604
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits	30	18,508,289	10,102,694
Saving deposits placed in a financial institution (an associate of the Group)	30	209,085	480,695
Time deposits:			
Placed in banks	30	8,421,862	9,200,602
Placed in a financial institution (an associate of the Group)	30	2,020,071	2,411,631
Less: Restricted cash and pledged deposits	30	(36,879)	(36,701)
Cash and cash equivalents as stated in the consolidated statement of financial position		29,122,428	22,158,921
Less: Time deposits with maturity of more than three months when acquired		(140,466)	(138,317)
Cash and cash equivalents as stated in the consolidated statement of cash flows		28,981,962	22,020,604

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION

Beijing Enterprises Holdings Limited (the “Company”) is a limited liability company incorporated in Hong Kong and the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). The registered office and the principal place of business of the Company is located at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

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

- the distribution and sale of piped natural gas and gas-related equipment, the provision of natural gas transmission, the surveying and plotting of underground construction projects, the installation of gas pipelines and related equipment and the provision of related repair and maintenance services in the mainland (“Mainland China”) of the People’s Republic of China (the “PRC”)
- the production, distribution and sale of brewery products in Mainland China
- the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, sewage treatment, water treatment and distribution, and the provision of consultancy services and the licensing of technical know-how that is related to sewage treatment in Mainland China and certain overseas countries
- the construction and operation of waste incineration plants, waste treatment and the sale of electricity, steam and heat generated from waste incineration in Germany and Mainland China

The immediate holding company of the Company is Beijing Enterprises Group (BVI) Company Limited (“BE Group BVI”), which is incorporated in the British Virgin Islands and, in the opinion of the directors, the ultimate holding company is 北京控股集團有限公司 (“Beijing Enterprises Group”), which is a state-owned enterprise established in the PRC and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality (the “Beijing Municipal Government”).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about principal subsidiaries

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

Company name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Gas Group Company Limited ("Beijing Gas") [#]	PRC/Mainland China	Renminbi("RMB") 5,883,767,802	–	100	Distribution and sale of piped gas and gas- related equipment
唐山市天然氣有限公司 ("Tangshan Gas") ^u	PRC/Mainland China	RMB650,000,000	–	60	Distribution and sale of piped gas
北京燃氣平谷有限公司 ^u	PRC/Mainland China	RMB539,326,100	–	98.95	Distribution and sale of piped gas
北京燃氣懷柔有限公司 ^u	PRC/Mainland China	RMB323,280,000	–	99.54	Distribution and sale of piped gas
北京燕京啤酒投資有限公司 ("Yanjing Investment") ^{&}	PRC/Mainland China	RMB3,409,828,000	–	79.77	Investment holding
Beijing Yanjing Brewery Company Limited ("Yanjing Brewery") ^u	PRC/Mainland China	RMB2,818,539,341	–	45.79 [†]	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan") ^u	PRC/Mainland China	RMB250,000,000	–	22.93 [†]	Production and sale of beer
燕京啤酒(包頭雪鹿)股份有限公司 ^u	PRC/Mainland China	RMB547,303,240	–	42.32 [†]	Production and sale of beer
燕京啤酒(桂林漓泉)股份有限公司 ^u	PRC/Mainland China	RMB349,366,900	–	34.69 [†]	Production and sale of beer
燕京啤酒(赤峰)有限責任公司 ^u	PRC/Mainland China	RMB577,120,000	–	43.16 [†]	Production and sale of beer
新疆燕京啤酒有限公司 ^u	PRC/Mainland China	RMB683,650,000	–	45.79 [†]	Production and sale of beer
燕京啤酒(衡陽)有限公司 ^u	PRC/Mainland China	RMB525,660,000	–	44.80 [†]	Production and sale of beer
四川燕京啤酒有限公司 ^u	PRC/Mainland China	RMB480,000,000	–	45.79 [†]	Production and sale of beer
廣東燕京啤酒有限公司 ^u	PRC/Mainland China	RMB809,882,100	–	58.23 [†]	Production and sale of beer
Beijing Enterprises Environment Group Limited ("BEEGL") ^o	Hong Kong	HK\$2,227,563,951	1.16	49.23	Investment holding
西咸新區北控環保科技發展有限公司 ^u	PRC/Mainland China	RMB349,590,000	–	65	Solid waste treatment operation
北京北控綠海能環保有限公司 ^{&}	PRC/Mainland China	RMB308,340,000	–	48.74 [†]	Solid waste treatment operation

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about principal subsidiaries *(Continued)*

Company name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
北京高安屯垃圾焚燒有限公司 [Ⓐ]	PRC/Mainland China	RMB274,000,000	–	42.78 [†]	Solid waste treatment operation
哈爾濱市雙琦環保資源利用有限公司 [Ⓐ]	PRC/Mainland China	RMB240,000,000	–	39.38 [†]	Solid waste treatment operation
EEW Holding GmbH (“EEW”)	Germany	EUR76,996,700	–	100	Investment holding
EEW Energy from Waste Saarbrücken GmbH	Germany	EUR20,452,000	–	100	Solid waste treatment operation
EEW Energy from Waste Helmstedt GmbH	Germany	EUR1,000,000	–	100	Solid waste treatment operation
Talent Yield (Euro) Limited Islands	British Virgin Islands	US\$1	–	100	Issuer of guaranteed bonds
Top Luxury Investment Limited	British Virgin Islands	US\$1	–	100	Issuer of guaranteed bonds
Talent Yield European Limited	British Virgin Islands	US\$1	–	100	Issuer of guaranteed bonds
Mega Advance Investments Limited	British Virgin Islands	US\$1	–	100	Issuer of guaranteed notes
Talent Yield Investments Limited	British Virgin Islands	US\$1	–	100	Issuer of guaranteed notes
Beijing Gas Singapore Capital Corporation	British Virgin Islands	US\$10	–	100	Issuer of guaranteed notes

[#] This entity is registered as a wholly-foreign-owned entity under PRC law.

^μ These entities are registered as limited liability companies under PRC law.

[&] These entities are registered as Sino-foreign joint ventures under PRC law.

[†] These entities are accounted for as subsidiaries by virtue of the Company’s control over them through non-wholly-owned subsidiaries.

^{*} Shares of Yanjing Brewery are listed on the Shenzhen Stock Exchange.

[^] Shares of Yanjing Huiquan are listed on the Shanghai Stock Exchange.

^Ω Shares of BEEGL are listed on the Main Board of the Hong Kong Stock Exchange.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.1 BASIS OF PRESENTATION AND PREPARATION

Basis of presentation

Despite that the Group had net current liabilities of HK\$3.7 billion and capital commitments of approximately HK\$13.3 billion as at 31 December 2020, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern after taking into account, inter alia, the historical operating performance of the Group and the following:

- (a) listed investments of the Group could be realised immediately for funds to enable the Group to meet its liabilities as and when they fall due; and
- (b) the Company is considering to raise funds through issuance of corporate bonds in 2021.

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

Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, equity and fund investments which have been measured at fair value. These financial statements are presented in Hong Kong dollar (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.1 BASIS OF PRESENTATION AND PREPARATION *(Continued)*

Basis of preparation *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* (the “Conceptual Framework”) and the following revised HKFRSs for the first time for the current year’s financial statements:

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKFRS 16	<i>COVID-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

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

- (a) The Conceptual Framework sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The Group early adopted the amendments from the accounting period beginning on 1 January 2020 and the amendments did not have any impact on the financial position and performance of the Group.
- (e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework²</i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 17	<i>Insurance Contracts³</i>
Amendments to HKFRS 17	<i>Insurance Contracts^{3, 6}</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current^{3, 5}</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use²</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract²</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 ²

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

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

⁶ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 Insurance Contracts was amended to extend the temporary exemption that permits insurers to apply HKAS 39 Financial Instruments: Recognition and Measurement rather than HKFRS 9 (2014) Financial Instruments for annual periods beginning before 1 January 2023

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

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

- (a) Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the Conceptual Framework issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 *Business Combinations* an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or HK(IFRIC)-Int 21 *Levies* if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21, respectively, instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.
- (b) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 (2014) to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(b) (Continued)

The Group had certain interest-bearing bank and other borrowings denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and the London Interbank Offered Rate (“LIBOR”) as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the “economically equivalent” criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

- (c) Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 *Consolidated Financial Statements* and in HKAS 28 (2011) *Investments in Associates and Joint Ventures* in dealing with the sale or contribution of assets between an investor and its joint venture or associate. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its joint venture or associate constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor’s profit or loss only to the extent of the unrelated investor’s interest in that joint venture or associate. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for joint venture or associate. However, the amendments are available for adoption now.
- (d) Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity’s right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.
- (e) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

- (f) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.
- (g) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16 *Leases*, and HKAS 41 *Agriculture*. Details of the amendments that are expected to be applicable to the Group are as follows:
- HKFRS 9 (2014): clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
 - HKFRS 16: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures and associates

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

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

The Group's investments in joint ventures and associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

or

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

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

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

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

Property, plant and equipment and depreciation

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

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

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

Buildings	10 to 50 years
Leasehold improvements	Over the lease terms or 5 to 10 years, whichever is the shorter
Gas pipelines	25 years
Gas meters	8 years
Other plant and machinery	5 to 20 years
Furniture, fixtures and office equipment	5 to 12 years
Motor vehicles	5 to 15 years

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

Construction in progress represents gas pipelines, buildings, structures, plant and machinery and other property, plant and equipment under construction or installation, construction materials (which include materials for construction projects and equipment that needs to be installed) and prepayments for large-scale equipment. Construction in progress is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

Group as a lessor

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

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

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases. At the commencement date, the cost of the asset held under a finance lease is capitalised at the present value of the lease payments and related payments (including initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease, which is measured using the interest rate implicit in the lease. Subsequent to initial measurement, finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the lease.

Group as a lessee

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessee (Continued)

(a) Right-of-use assets

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

Leasehold land	1 to 50 years
Office premises	1 to 47 years
Plant and machinery	3 to 20 years
Gas pipelines	20 years
Motor vehicles	6 years

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

(b) Lease liabilities

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessee (Continued)

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

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

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on the straight-line basis over the lease term.

Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group, ensuring that the infrastructure meets the specified quality of efficiency requirements. The financial asset (receivable under a service concession arrangement) is accounted for in accordance with the policy set out for “Investments and other financial assets” below.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

Construction or upgrade services

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

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for solid waste treatment service contracts under “Revenue recognition – Revenue from contracts with customers” below. Costs relating to operating services are expensed in the period in which they are incurred.

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

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

Intangible assets (other than goodwill)

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Operating concessions

Operating concessions represent the rights to operate a toll road and solid waste incineration plants, and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 15 to 40 years.

Customer contracts

Customer contracts represent the fair value of the economic benefits from several customer service agreements of the solid waste treatment operation at initial recognition. Amortisation is provided on the straight-line basis over the respective contract periods of 1 to 28 years.

Patents

Purchased patents are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 25 to 30 years.

Computer software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over its estimated useful life of 2 to 10 years.

Research and development costs

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, deferred tax assets, financial assets, inventories and contract assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Initial recognition and measurement (Continued)

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

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

Subsequent measurement

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

(a) **Financial assets at amortised cost (debt instruments)**

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

(c) Financial assets at fair value through profit or loss

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment

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

(a) General approach

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

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

The Group considers a financial asset to be in default when contractual payments are past due, in general, over 2 to 3 years based on historical pattern and credit risk management practices of the Group. As some of the customers of the Group are enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities affiliates or other organisations, and there was no history of default in prior years, the directors of the Company considered that the default rate is minimal. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment *(Continued)*

(a) General approach *(Continued)*

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

(b) Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Derecognition

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Derecognition

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

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

Offsetting of financial instruments

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis or the weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

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

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

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Income tax

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

Governments grants

Government grants are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with.

Where a grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed. Where a grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or is deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

(a) **Piped gas operation**

Revenue from the sale of piped natural gas is recognised at the point in time when the gas is consumed by the customer, based on gas consumption derived from meter readings.

Revenue from the sale of gas-related equipment is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the gas-related equipment.

(b) **Sale of brewery products**

Revenue from the sale of brewery products is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the brewery products.

(c) **Construction services**

Contract revenue comprises (i) the agreed contract amounts and appropriate amounts from variation orders, claims and incentive payments in respect of construction services and (ii) construction revenue recognised under service concession arrangements. Revenue from the construction of solid waste incineration plants under the terms of service concession arrangements is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in a similar location.

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

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

(d) Solid waste treatment service contracts

Revenue from the sale of electricity, steam and heat which are produced during the solid waste incineration process is recognised at the point in time when the product is transferred to the customer, generally on delivery of electricity, steam and heat.

Revenue from the solid waste collection service is recognised at the point in time when the service has been rendered.

Revenue from other sources

(a) Rental income

Rental income is recognised on the straight-line basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

(b) Interest income

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

(c) Dividend and investment income

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

Contract assets

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

Contract liabilities

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments

BEEGL, a subsidiary of the Group, operates a share option scheme for the granting of non-transferable options, for the purpose of providing incentives and rewards, to eligible participants who contribute to the success of the operations of BEEGL and its subsidiaries (the “BEEGL Group”). Employees (including directors of BEEGL) of the BEEGL Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value of share options granted by BEEGL is determined by external valuers using the Black-Scholes-Merton option pricing model.

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

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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

Other employee benefits

Defined contribution schemes

The Group has joined a number of defined contribution pension schemes organised by certain provincial or municipal governments in the PRC and Germany for certain of its employees, the assets of which are held separately from those of the Group. Contributions are made based on a percentage of the eligible employees' salaries and are charged to profit or loss as they become payable, in accordance with the rules of the pension schemes. The employer contributions vest fully once made.

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

Defined benefit schemes

Certain employees of the Group can enjoy other retirement benefits after retirement such as supplementary medical reimbursement, allowance and beneficiary benefits pursuant to certain defined benefit plans of the Group. These benefits are unfunded. The costs of providing benefits under these defined benefit plans are determined using the projected unit credit method and are charged to profit or loss so as to spread the costs over the average service lives of the relevant employees in accordance with the actuarial report which contains valuation of the obligations for the year. These obligations are measured at the present value of the estimated future cash outflows. Actuarial gains and losses, which are remeasurements arising from defined benefit plans, are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to defined benefit plans reserve as other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

Defined benefit schemes *(Continued)*

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under “administrative expenses” in profit or loss:

- service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

Borrowing costs

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

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

Foreign currencies

These financial statements are presented in Hong Kong dollar, which is the Company’s functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

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

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

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

Dividends

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less costs of disposal of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2020 was HK\$16.8 billion, details of which are set out in note 17 to the financial statements.

Estimates of gas consumption

Determination of the revenue generated from the distribution and sale of piped natural gas between the date of last meter reading and the year end involves an estimation of the gas supplied to customers for whom actual meter reading is not available. The estimation is done mainly based on the billed volume from the latest meter reading period, adjusted by the location and nature of customers.

The actual consumption could deviate from those estimates.

Control consideration in respect of certain associates

The Group accounts for Beijing Enterprises Water Group Limited ("BE Water", an entity listed on the Hong Kong Stock Exchange and owned as to 41.13% by the Group as at 31 December 2020) and Beijing Gas Blue Sky Holdings Limited ("Blue Sky", an entity listed on the Hong Kong Stock Exchange and owned as to 41.13% by the Group as at 31 December 2020) as associates. In determining whether the Group has control over BE Water and Blue Sky, the Group has taken into account its effective influence it may exercise over the decisions of the boards of directors of BE Water and Blue Sky, including the voting rights held by the Group, the structure of the boards of directors and senior management of BE Water and Blue Sky and the expertise of directors designated by other shareholders. In the opinion of the Company's directors, the Group did not have the sufficient ability to exercise power to control BE Water and Blue Sky throughout the years ended 31 December 2020 and 2019 and BE Water and Blue Sky were accounted for as associates in these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

Estimation of fair value of investment properties and financial assets measured at fair value

The fair values of the Group's investment properties and financial assets measured at fair value are assessed by management based on valuations performed by independent professionally qualified valuers. The assumptions adopted in the investment property valuations are based on information of annual rental income and property market price per square metre, supported by (i) the terms of any existing leases and other contracts; and (ii) (when possible) external evidence such as current market rents and recent prices for similar properties in the same location and condition. The assumptions adopted in the valuation of financial assets measured at fair value are based on the quoted market prices or a market-based valuation technique based on assumptions that are not supported by observable market prices or rates.

Further details of the fair value estimation of the investment properties and financial assets measured at fair value, including the key assumptions used for fair value measurement and a sensitivity analysis, are set out in notes 15 and 48 to the financial statements.

Impairment assessment of investments in associates

Management determines whether investments in associates have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. This requires an estimation of the value in use or fair value less costs of disposal of the cash-generating units ("CGUs") and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets or their related CGUs, various assumptions, including future cash flows and discount rates. The carrying amount of investments in associates as at 31 December 2020 were HK\$61.0 billion, details of which is set out in note 22 to the financial statements.

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

The carrying amounts of items of property, plant and equipment, right-of-use assets, operating concessions and other intangible assets of certain brewery and solid waste treatment operations were reviewed for impairment during the year in accordance with the accounting policy as disclosed in note 2.4 to the financial statements in light of events or changes in circumstances which indicated that the carrying amounts may not be recoverable. The recoverable amount is the higher of its fair value less costs of disposal and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets or their related CGUs, various assumptions, including future cash flows and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. The carrying amounts of property, plant and equipment, right-of-use assets, operating concessions and other intangible assets of the related CGUs carried as assets in the consolidated statement of financial position as at 31 December 2020 were HK\$4.7 billion, HK\$405 million, HK\$4.4 billion and HK\$134 million, respectively, details of which are set out in note 20 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. OPERATING SEGMENT INFORMATION

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

- (a) the piped gas operation segment engages in the distribution and sale of piped natural gas and gas-related equipment, the provision of natural gas transmission, the surveying and plotting of underground construction projects, and installation of gas pipelines and related equipment and the provision of related repair and maintenance services in Mainland China;
- (b) the brewery operation segment produces, distributes and sells brewery products in Mainland China;
- (c) the water and environmental operation segment engages in the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, sewage treatment, water treatment and distribution, and the provision of consultancy services and the licensing of technical know-how that is related to sewage treatment in Mainland China and certain overseas countries;
- (d) the solid waste treatment operation segment engages in the construction and operation of waste incineration plants, waste treatment and the sale of electricity, steam and heat generated from waste incineration in Germany and Mainland China; and
- (e) the corporate and others segment comprises consultation services, property investment and corporate income and expense items.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2020

	Piped gas operation HK\$'000	Brewery operation HK\$'000	Water and environmental operation HK\$'000	Solid waste treatment operation HK\$'000	Corporate and others HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Segment revenue (note 5)	48,550,430	11,046,394	–	8,810,619	–	–	68,407,443
Cost of sales	(43,852,391)	(7,155,053)	–	(6,535,102)	–	–	(57,542,546)
Gross profit	4,698,039	3,891,341	–	2,275,517	–	–	10,864,897
Profit from operating activities	2,804,268	356,482	–	462,912	52,668	–	3,676,330
Finance costs	(358,992)	(23,158)	–	(210,707)	(1,405,180)	–	(1,998,037)
Share of profits and losses of:							
Joint ventures	16,565	–	–	–	–	–	16,565
Associates	3,195,791	16,411	1,720,659	25,538	–	–	4,958,399
Profit/(loss) before tax	5,657,632	349,735	1,720,659	277,743	(1,352,512)	–	6,653,257
Income tax	(438,836)	(190,106)	–	(352,904)	(24,948)	–	(1,006,794)
Profit/(loss) for the year	5,218,796	159,629	1,720,659	(75,161)	(1,377,460)	–	5,646,463
Segment profit/(loss) attributable to shareholders of the Company	5,260,233	(31,133)	1,720,659	(285,413)	(1,377,458)	–	5,286,888
Segment assets	122,118,783	22,978,662	15,836,203	38,284,776	13,442,424	(7,856,427)	204,804,421
Segment liabilities	38,747,877	7,899,876	–	19,544,802	49,042,571	(7,856,427)	107,378,699
Other segment information:							
Interest income	293,795	88,163	–	11,523	211,568	–	605,049
Finance income on the net investment in a finance lease	–	–	–	59,526	–	–	59,526
Depreciation of items of property, plant and equipment	2,061,004	947,757	–	798,628	9,553	–	3,816,942
Depreciation of right-of-use assets	55,738	44,649	–	52,300	16,694	–	169,381
Amortisation of operating concessions	–	–	–	155,903	–	–	155,903
Amortisation of other intangible assets	156,389	–	–	181,177	–	–	337,566
Impairment against segment assets, net*	54,802	111,670	–	1,098,684	–	–	1,265,156
Investments in joint ventures	385,864	–	–	–	6,652	–	392,516
Investments in associates	43,795,301	330,993	15,773,917	71,000	1,010,938	–	60,982,149
Capital expenditure**	2,881,076	345,411	–	2,299,750	25,320	–	5,551,557

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2019

	Piped gas operation HK\$'000	Brewery operation HK\$'000	Water and environmental operation HK\$'000	Solid waste treatment operation HK\$'000	Corporate and others HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Segment revenue (note 5)	47,517,770	11,826,321	–	8,438,937	–	–	67,783,028
Cost of sales	(42,699,589)	(8,010,183)	–	(6,127,119)	–	–	(56,836,891)
Gross profit	4,818,181	3,816,138	–	2,311,818	–	–	10,946,137
Profit/(loss) from operating activities	2,745,406	402,537	–	1,799,744	(167,969)	–	4,779,718
Finance costs	(372,147)	(21,565)	–	(174,222)	(1,627,034)	–	(2,194,968)
Share of profits and losses of:							
Joint ventures	28,810	–	–	–	–	–	28,810
Associates	4,888,992	26,185	2,026,934	40,307	–	–	6,982,418
Profit/(loss) before tax	7,291,061	407,157	2,026,934	1,665,829	(1,795,003)	–	9,595,978
Income tax	(437,085)	(184,686)	–	(395,207)	(5,391)	–	(1,022,369)
Profit/(loss) for the year	6,853,976	222,471	2,026,934	1,270,622	(1,800,394)	–	8,573,609
Segment profit/(loss) attributable to shareholders of the Company	6,873,408	1,073	2,026,934	953,794	(1,800,429)	–	8,054,780
Segment assets	110,776,401	21,273,476	13,028,341	34,142,062	13,696,288	(7,110,292)	185,806,276
Segment liabilities	34,577,988	6,994,699	–	17,356,966	46,972,088	(7,110,292)	98,791,449
Other segment information:							
Interest income	118,370	37,370	–	17,998	80,985	–	254,723
Finance income on the net investment in a finance lease	–	–	–	61,516	–	–	61,516
Depreciation of items of property, plant and equipment	1,961,728	902,886	–	717,537	10,390	–	3,592,541
Depreciation of right-of-use assets	107,276	37,890	–	49,606	4,126	–	198,898
Amortisation of operating concessions	–	–	–	131,863	–	–	131,863
Amortisation of other intangible assets	56,068	–	–	179,366	–	–	235,434
Impairment against segment assets, net*	53,091	78,392	–	168,658	386,998	–	687,139
Investments in joint ventures	321,039	–	–	–	6,652	–	327,691
Investments in associates	42,938,981	304,542	12,978,985	67,012	955,315	–	57,244,835
Capital expenditure**	2,729,022	652,288	–	2,369,841	71,051	–	5,822,202

* These amounts are recognised in the consolidated statement of profit or loss and included impairment/(reversal of impairment) against goodwill, items of property, plant and equipment, right-of-use assets, operating concessions, other intangible assets, investment in an investee, trade receivables and other receivables.

** Capital expenditure consists of additions to property, plant and equipment, investment properties, right-of-use assets, operating concessions and other intangible assets, excluding assets from the acquisition of subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Mainland China	62,743,815	62,463,119
Germany	5,663,628	5,319,909
	68,407,443	67,783,028

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

(b) Non-current assets

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Mainland China	117,194,511	110,149,631
Germany	19,030,762	17,264,018
Russian Federation ("Russia")	8,567,615	9,278,849
Elsewhere	224,109	239,838
	145,016,997	136,932,336

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

During each of the years ended 31 December 2020 and 2019, no single external customer contributed 10% or more of the Group's revenue.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. REVENUE

Revenue of the Group for each of the years ended 31 December 2020 and 2019 was all revenue from contracts with customers and represented revenue generated from the piped gas operation, brewery operation and solid waste treatment operation.

(a) Disaggregated revenue information Year ended 31 December 2020

Segments	Piped gas operation HK\$'000	Brewery operation HK\$'000	Solid waste treatment operation HK\$'000	Total HK\$'000
Types of goods or services				
Sale of piped natural gas	46,766,023	–	–	46,766,023
Sale of gas-related equipment	737,592	–	–	737,592
Sale of brewery products	–	11,046,394	–	11,046,394
Construction services	1,046,815	–	1,386,387	2,433,202
Solid waste collection services	–	–	5,381,697	5,381,697
Sale of electricity, steam and heat	–	–	2,042,535	2,042,535
 Total revenue from contracts with customers	 48,550,430	 11,046,394	 8,810,619	 68,407,443
Geographical markets				
Mainland China	48,550,430	11,046,394	3,146,991	62,743,815
Germany	–	–	5,663,628	5,663,628
 Total revenue from contracts with customers	 48,550,430	 11,046,394	 8,810,619	 68,407,443
Timing of revenue recognition				
Goods transferred at a point in time	47,503,615	11,046,394	2,042,535	60,592,544
Services transferred at a point in time	–	–	5,381,697	5,381,697
Services transferred over time	1,046,815	–	1,386,387	2,433,202
 Total revenue from contracts with customers	 48,550,430	 11,046,394	 8,810,619	 68,407,443

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. REVENUE *(Continued)*

(a) Disaggregated revenue information *(Continued)*

Year ended 31 December 2019

Segments	Piped gas operation HK\$'000	Brewery operation HK\$'000	Solid waste treatment operation HK\$'000	Total HK\$'000
Types of goods or services				
Sale of piped natural gas	46,537,696	–	–	46,537,696
Sale of gas-related equipment	517,163	–	–	517,163
Sale of brewery products	–	11,826,321	–	11,826,321
Construction services	462,911	–	1,803,099	2,266,010
Solid waste collection services	–	–	4,541,691	4,541,691
Sale of electricity, steam and heat	–	–	2,094,147	2,094,147
Total revenue from contracts with customers	47,517,770	11,826,321	8,438,937	67,783,028
Geographical markets				
Mainland China	47,517,770	11,826,321	3,119,028	62,463,119
Germany	–	–	5,319,909	5,319,909
Total revenue from contracts with customers	47,517,770	11,826,321	8,438,937	67,783,028
Timing of revenue recognition				
Goods transferred at a point in time	47,054,859	11,826,321	2,094,147	60,975,327
Services transferred at a point in time	–	–	4,541,691	4,541,691
Services transferred over time	462,911	–	1,803,099	2,266,010
Total revenue from contracts with customers	47,517,770	11,826,321	8,438,937	67,783,028

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. REVENUE *(Continued)*

(a) Disaggregated revenue information *(Continued)*

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2020 HK\$'000	2019 HK\$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	9,384,566	7,848,647
Rendering of solid waste treatment services	57,258	86,596
	9,441,824	7,935,243

(b) Performance obligations

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

Piped gas operation

The performance obligation in respect of sale of piped natural gas is satisfied upon delivery of gas and payment is generally due within 10 days from the date of billing.

The performance obligation in respect of sale of gas-related equipment is satisfied upon delivery of gas-related equipment and payment is generally due within 30 days from delivery.

Sale of brewery products

The performance obligation is satisfied upon delivery of brewery products and payment is generally due within 30 days from delivery.

Construction services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 90 days from the date of billing.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. REVENUE *(Continued)*

(b) Performance obligations *(Continued)*

Solid waste treatment services

The performance obligation in respect of sale of electricity, steam and heat is satisfied upon delivery of electricity, steam and heat and payment is generally due within 30 days from delivery.

The performance obligation in respect of solid waste collection service is satisfied at the point in time when the service is rendered and payment is generally due within 30 days from the date of solid waste collection.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) with an original expected duration of one year or more as at 31 December are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Expected to be recognised within one year	2,069,342	2,105,368
Expected to be recognised after one year	1,731,406	1,776,291
Total <i>(note)</i>	3,800,748	3,881,659

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

6. OTHER INCOME AND GAINS, NET

	Note	2020 HK\$'000	2019 HK\$'000
Other income			
Bank interest income		605,049	254,723
Finance income on the net investment in a finance lease		59,526	61,516
Rental income		58,928	50,310
Government grants*		173,529	174,053
Transfer of assets from customers	14	58,851	115,914
Dividend income of equity investments at fair value through other comprehensive income		67,913	49,402
Investment income of a financial asset at fair value through profit or loss		154,128	160,284
Others		589,564	519,058
		1,767,488	1,385,260
Gains, net			
Gain on disposal of items of property, plant and equipment, net		–	2,240
Foreign exchange differences, net		43,848	–
		43,848	2,240
Other income and gains, net		1,811,336	1,387,500

* Government grants represented government subsidies and turnover tax refunds in respect of the Group's operations in Mainland China. Turnover tax includes value-added tax, city construction tax and education surcharge. The government grants are unconditional, except for certain grants that must be utilised for business development of the Company's subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

7. FINANCE COSTS

	<i>Notes</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
Interest on bank loans and other loans		919,875	1,049,473
Interest on guaranteed bonds and notes		1,048,095	1,101,247
Interest on lease liabilities	<i>16(b)</i>	28,993	45,573
Total interest expenses		1,996,963	2,196,293
Increase in discounted amounts of provision for major overhauls arising from the passage of time	<i>37</i>	1,074	1,815
Total finance costs		1,998,037	2,198,108
Less: Interest capitalised in construction in progress		–	(3,140)
		1,998,037	2,194,968

NOTES TO FINANCIAL STATEMENTS

31 December 2020

8. PROFIT BEFORE TAX

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

	Notes	2020 HK\$'000	2019 HK\$'000
Cost of inventories sold*		54,746,367	54,198,006
Cost of services provided*		2,473,606	2,340,908
Depreciation of items of property, plant and equipment	14	3,816,942	3,592,541
Depreciation of right-of-use assets	16(b)	169,381	198,898
Amortisation of operating concessions*	18	155,903	131,863
Amortisation of other intangible assets**	19	337,566	235,434
Provision for major overhauls***	37	23,088	21,508
Research and development expenditure***		353,562	268,120
Loss on disposal of items of property, plant and equipment, net		47,031	–
Lease payments not included in the measurement of lease liabilities	16(b)	73,010	189,227
Auditor's remuneration paid and payable to:			
Auditor of the Company		10,700	10,700
Auditor of an associate		5,300	5,300
Employee benefit expense (including directors' remuneration – note 9):			
Salaries, allowances and benefits in kind		6,542,911	6,727,330
Net pension scheme contributions^		197,038	496,024
Net benefit expense of defined benefit plans**	36(a), 36(b)	160,093	160,567
		6,900,042	7,383,921
Less: Amount capitalised in construction in progress/operating concessions		(14,359)	(51,712)
		6,885,683	7,332,209
Foreign exchange differences, net		(43,848)	28,245
Impairment of non-current non-financial assets#		1,208,193	538,711
Impairment of financial assets, net:			
Impairment/(reversal of impairment) of trade receivables, net***	26(d)	55,541	(56,825)
Impairment of other receivables, net***	27(c)	1,422	205,253
		56,963	148,428
Write-down of inventories to net realisable value		34,151	–
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		28,341	38,812

NOTES TO FINANCIAL STATEMENTS

31 December 2020

8. PROFIT BEFORE TAX *(Continued)*

- * These items are included in "Cost of sales" on the face of the consolidated statement of profit or loss.
- ** These items are included in "Administrative expenses" on the face of the consolidated statement of profit or loss, except for amortisation of certain other intangible assets in a total amount of HK\$166,670,000 (2019: HK\$166,114,000) which is included in "Cost of sales".
- *** These items are included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss.
- # This item is included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss and included impairment against goodwill, items of property, plant and equipment, right-of-use assets, operating concessions, other intangible assets and investment in an investee.
- ^ During the year ended 31 December 2020, the Ministry of Human Resources and Social Security, the Ministry of Finance and the State Taxation Administration of the PRC issued a guideline on exempting social insurance payments of enterprises in order to mitigate the impact of COVID-19 pandemic. The net pension scheme contributions in the PRC was subject to the exemption and certain of the Company's subsidiaries established in Mainland China enjoyed the exemption of social insurance payments.

Had the exemption not taken place during the year, the net pension scheme contributions for the year would have increased by HK\$342,668,000.

9. DIRECTORS' REMUNERATION

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

	2020 HK\$'000	2019 HK\$'000
Fees	1,530	1,350
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	3,879	8,333
Pension scheme contributions	29	29
	3,908	8,362
	5,438	9,712

NOTES TO FINANCIAL STATEMENTS

31 December 2020

9. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Year ended 31 December 2020				
Executive directors:				
Mr. Hou Zibo [#]	–	539	–	539
Mr. Li Yongcheng	–	539	–	539
Mr. Zhao Xiaodong	–	–	–	–
Mr. Jiang Xinhao	–	539	–	539
Mr. Tam Chun Fai	150	2,262	29	2,441
Mr. E Meng [*]	–	–	–	–
	150	3,879	29	4,058
Independent non-executive directors:				
Mr. Wu Jiesi	345	–	–	345
Mr. Lam Hoi Ham	345	–	–	345
Mr. Sze Chi Ching	345	–	–	345
Mr. Yu Sun Say	345	–	–	345
Mr. Ma She ^Ω	–	–	–	–
	1,380	–	–	1,380
Total directors' remuneration	1,530	3,879	29	5,438

[#] Subsequent to the reporting period, Mr. Hou Zibo resigned as an executive director of the Company with effect from 2 February 2021.

^{*} Mr. E Meng resigned as an executive director of the Company with effect from 3 January 2020.

^Ω Mr. Ma She resigned as an independent non-executive director of the Company with effect from 21 January 2020.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

9. DIRECTORS' REMUNERATION *(Continued)*

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
Year ended 31 December 2019				
Executive directors:				
Mr. Hou Zibo	–	1,757	–	1,757
Mr. Li Yongcheng	–	1,452	–	1,452
Mr. Zhao Xiaodong	–	–	–	–
Mr. E Meng	–	1,452	–	1,452
Mr. Jiang Xinhao	–	1,452	–	1,452
Mr. Tam Chun Fai	150	2,220	29	2,399
	150	8,333	29	8,512
Independent non-executive directors:				
Mr. Wu Jiesi	300	–	–	300
Mr. Lam Hoi Ham	300	–	–	300
Mr. Sze Chi Ching	300	–	–	300
Mr. Yu Sun Say	300	–	–	300
Mr. Ma She	–	–	–	–
	1,200	–	–	1,200
Total directors' remuneration	1,350	8,333	29	9,712

Other than Messrs. Zhao Xiaodong and Ma She who waived their remuneration from the Company for each of the years ended 31 December 2020 and 2019, there was no agreement under which a director waived or agreed to waive any remuneration during these years.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2020 and 2019 are neither a director nor chief executive of the Company and details of their remuneration for the year are as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries, allowances and benefits in kind	25,909	25,389
Pension scheme contributions	2,724	1,309
	28,632	26,698

The number of the five non-director and non-chief executive highest paid employees whose remuneration for the year ended 31 December 2020 and 2019 fell within the following bands is as follows:

	Number of employees	
	2020	2019
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$5,000,001 to HK\$5,500,000	1	–
HK\$5,500,001 to HK\$6,000,000	1	1
HK\$6,000,001 to HK\$6,500,000	1	1
HK\$8,500,001 to HK\$9,000,000	1	1
	5	5

NOTES TO FINANCIAL STATEMENTS

31 December 2020

11. INCOME TAX

	2020 HK\$'000	2019 HK\$'000
Current – Hong Kong	11,475	3,303
Current – Mainland China		
Charge for the year	556,742	601,427
Underprovision in prior years	36,255	–
Current – Germany		
Charge for the year	407,151	392,043
Overprovision in prior years	(33,696)	(63,750)
Current – Others	40,768	48,603
Deferred (<i>note 39</i>)	(11,901)	40,743
Total tax expense for the year	1,006,794	1,022,369

Notes:

(a) Applicable income tax rates

A summary of applicable income tax rates of the jurisdictions in which the Group has operations during the year is as follows:

	2020 %	2019 %
Hong Kong	16.5	16.5
Mainland China*	25	25
Germany	30	30

* In accordance with the relevant tax rates and regulations of the PRC, certain of the Company's subsidiaries established in Mainland China enjoy PRC corporate income tax exemptions and reductions.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

11. INCOME TAX *(Continued)*

Notes: (Continued)

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

Year ended 31 December 2020

	Hong Kong		Mainland China		Germany		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	1,965,962		2,973,852		1,137,717		575,726		6,653,257	
Tax expense at the statutory tax rate	324,388	16.5	743,464	25.0	341,315	30.0	115,145	20.0	1,524,312	22.9
Lower tax rate for specific provinces or enacted by local authority	–	–	(581,280)	(19.5)	(6,624)	(0.6)	–	–	(587,904)	(8.8)
Effect of withholding tax on distributable profit	11,475	0.6	–	–	–	–	40,768	7.1	52,243	0.8
Adjustments in respect of current tax of previous periods	–	–	36,255	1.2	(33,696)	(3.0)	–	–	2,559	0.0
Profits and losses attributable to joint ventures and associates	(645,329)	(32.8)	50,423	1.7	–	–	(115,145)	(20.0)	(710,051)	(10.7)
Income not subject to tax	(40,091)	(2.0)	(404,647)	(13.6)	(3,456)	(0.3)	–	–	(448,194)	(6.7)
Expenses not deductible for tax	357,370	18.2	437,429	14.7	16,993	1.5	–	–	811,792	12.2
Tax losses not recognised as deferred tax assets	3,662	0.2	358,375	12.1	–	–	–	–	362,037	5.4
Tax expense at the Group's effective tax rate	11,475	0.6	640,019	21.5	314,532	27.6	40,768	7.1	1,006,794	15.1

NOTES TO FINANCIAL STATEMENTS

31 December 2020

11. INCOME TAX (Continued)

Notes: (Continued)

(b) (Continued)

Year ended 31 December 2019

	Hong Kong		Mainland China		Germany		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	2,679,738		4,633,084		1,113,856		1,169,300		9,595,978	
Tax expense at the statutory tax rate	442,162	16.5	1,158,271	25.0	334,157	30.0	233,860	20.0	2,168,450	22.6
Lower tax rate for specific provinces or enacted by local authority	–	–	(632,397)	(13.6)	–	–	–	–	(632,397)	(6.6)
Effect of withholding tax on distributable profit	1,511	0.1	1,904	0.0	–	–	48,603	4.2	52,018	0.5
Adjustments in respect of current tax of previous periods	–	–	–	–	(63,750)	(5.7)	–	–	(63,750)	(0.7)
Profits and losses attributable to joint ventures and associates	(739,556)	(27.6)	(217,933)	(4.7)	–	–	(233,860)	(20.0)	(1,191,349)	(12.4)
Income not subject to tax	(14,455)	(0.5)	(48,847)	(1.1)	(15,733)	(1.4)	–	–	(79,035)	(0.8)
Expenses not deductible for tax	308,767	11.5	192,665	4.2	22,678	2.0	–	–	524,110	5.5
Tax losses not recognised as deferred tax assets	4,874	0.2	238,542	5.1	906	0.1	–	–	244,322	2.5
Tax expense at the Group's effective tax rate	3,303	0.1	692,205	14.9	278,258	25.0	48,603	4.2	1,022,369	10.7

- (c) The share of tax attributable to joint ventures and associates amounting to HK\$3,655,000 (2019: HK\$4,588,000) and HK\$1,784,461,000 (2019: HK\$2,180,628,000), respectively, is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

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12. DIVIDENDS

	2020 HK\$'000	2019 HK\$'000
Interim – HK\$0.4 (2019: HK\$0.40) per ordinary share	504,821	504,821
Proposed final – HK\$0.74 (2019: HK\$0.74) per ordinary share	933,919	933,919
	1,438,740	1,438,740

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to shareholders of the Company of HK\$5,286,888,000 (2019: HK\$8,054,780,000), and the weighted average number of ordinary shares of 1,262,053,268 (2019: 1,262,053,268) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for each of the years ended 31 December 2020 and 2019 for a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

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14. PROPERTY, PLANT AND EQUIPMENT

	Notes	Buildings HK\$'000 (note (a))	Leasehold improvements HK\$'000	Gas pipelines HK\$'000	Gas meters and other plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Year ended 31 December 2020									
At 1 January 2020:									
Cost		16,149,051	193,186	24,698,788	38,019,257	1,723,373	939,177	6,807,249	88,530,081
Accumulated depreciation and impairment		(4,931,853)	(27,009)	(7,908,517)	(21,921,791)	(1,012,767)	(564,869)	(264,356)	(36,631,162)
Net carrying amount		11,217,198	166,177	16,790,271	16,097,466	710,606	374,308	6,542,893	51,898,919
Net carrying amount:									
At 1 January 2020		11,217,198	166,177	16,790,271	16,097,466	710,606	374,308	6,542,893	51,898,919
Acquisition of subsidiaries	43	14,055	–	56,880	9,114	2,437	11,499	24,558	118,543
Additions		379,709	4,422	110,766	963,841	89,447	29,140	2,771,116	4,348,441
Transfer of assets from customers	6	–	–	58,851	–	–	–	–	58,851
Transfer from construction in progress		91,836	–	761,400	701,726	29,924	2,458	(1,587,344)	–
Actual cost adjustment		(429,185)	–	166,695	262,603	–	–	–	113
Depreciation provided during the year	8	(462,252)	(10,340)	(1,311,631)	(1,815,142)	(152,110)	(65,467)	–	(3,816,942)
Impairment provided during the year	20	(41,604)	–	–	(51,305)	(32)	–	–	(92,941)
Disposals		(112)	(33)	(645)	(63,907)	(16,019)	(3,465)	(273,064)	(357,245)
Reclassification from right-of-use assets	16(b)	–	–	683,664	–	–	–	–	683,664
Offsetting government grants		(7,156)	–	(249,966)	(2,226)	–	–	–	(259,348)
Exchange realignment		666,987	16,780	1,017,415	1,107,827	41,998	24,677	453,229	3,328,913
At 31 December 2020		11,479,476	177,006	18,083,700	17,209,997	706,251	373,150	7,931,388	55,910,968
At 31 December 2020:									
Cost		17,195,393	215,935	27,924,565	42,361,144	1,927,073	995,769	8,210,825	98,830,704
Accumulated depreciation and impairment		(5,765,917)	(38,929)	(9,840,865)	(25,151,147)	(1,220,822)	(622,619)	(279,437)	(42,919,736)
Net carrying amount		11,429,476	177,006	18,083,700	17,209,997	706,251	373,150	7,931,388	55,910,968

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

	Notes	Buildings HK\$'000 (note (a))	Leasehold improvements HK\$'000	Gas pipelines HK\$'000	Gas meters and other plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Year ended 31 December 2019									
At 1 January 2019:									
Cost		16,236,423	167,723	24,391,726	35,939,094	1,379,372	903,039	6,737,072	85,754,449
Accumulated depreciation and impairment		(4,640,711)	(21,771)	(6,645,144)	(21,010,493)	(958,778)	(548,652)	(268,405)	(34,093,954)
Net carrying amount		11,595,712	145,952	17,746,582	14,928,601	420,594	354,387	6,468,667	51,660,495
Net carrying amount:									
At 1 January 2019		11,595,712	145,952	17,746,582	14,928,601	420,594	354,387	6,468,667	51,660,495
Acquisition of subsidiaries	43	181,912	–	99,639	48,470	247,996	5,265	401,173	984,455
Additions		116,354	29,919	132,621	549,256	86,691	85,299	3,259,794	4,259,934
Actual cost adjustment		(485,227)	–	(250,373)	843,589	1,558	2,019	–	111,566
Transfer of assets from customers	6	–	–	30,238	85,676	–	–	–	115,914
Transfer from construction in progress		393,195	–	1,207,481	1,727,461	77,656	6,317	(3,412,110)	–
Depreciation provided during the year	8	(358,956)	(5,494)	(1,330,696)	(1,733,866)	(94,712)	(68,817)	–	(3,592,541)
Disposals		(9,366)	–	(15,894)	(35,658)	(1,257)	(4,204)	(55,214)	(121,593)
Offsetting government grants		(18,226)	–	(555,598)	–	(11,214)	–	–	(585,038)
Exchange realignment		(198,200)	(4,200)	(273,729)	(316,063)	(16,706)	(5,958)	(119,417)	(934,273)
At 31 December 2019		11,217,198	166,177	16,790,271	16,097,466	710,606	374,308	6,542,893	51,898,919
At 31 December 2020:									
Cost		16,149,051	193,186	24,698,788	38,019,257	1,723,373	939,177	6,807,249	88,530,081
Accumulated depreciation and impairment		(4,931,853)	(27,009)	(7,908,517)	(21,921,791)	(1,012,767)	(564,869)	(264,356)	(36,631,162)
Net carrying amount		11,217,198	166,177	16,790,271	16,097,466	710,606	374,308	6,542,893	51,898,919

Notes:

- (a) At 31 December 2020, a building in relation to a solid waste incineration plant of the Group situated in Mainland China with a net carrying amount of HK\$282,873,000 (2019: HK\$45,322,000) were pledged to secure a bank loan granted to the Group (note 34(c)).
- (b) During the year, an impairment of HK\$92,941,000 (2019: Nil) was recognised against the property, plant and equipment of the Group's brewery and solid waste treatment operations, details of which are set out in notes 20(a) and 20(b) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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15. INVESTMENT PROPERTIES

	2020 HK\$'000	2019 HK\$'000
Carrying amount as at 1 January	1,131,346	1,147,395
Exchange realignment	58,350	(16,049)
Carrying amount as at 31 December	1,189,696	1,131,346

Notes:

- (a) The investment properties are office buildings or premises and are leased to third parties under operating leases, further summary details of which are included in note 16(a) to the financial statements.
- (b) Each year, the Group's chief financial officer decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group holds discussion with valuers on the valuation assumptions and valuation results once a year when the valuation is performed for the purpose of annual financial reporting.

At 31 December 2020, the investment properties were revalued based on valuations performed by Cushman & Wakefield, independent professionally qualified valuers, using the investment method and direct comparison method. No fair value gain or loss was recognised on the Group's investment properties during the year ended 31 December 2020 (2019: Nil) as there were no material changes in the fair value of these properties when compared to those as at 31 December 2019.

The fair values of all the Group's investment properties were revalued using significant unobservable inputs (Level 3 fair value measurement). During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2019: Nil). The definitions of Level 1, Level 2 and Level 3 are explained under the policy set out for "Fair value measurement" in note 2.4 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. INVESTMENT PROPERTIES *(Continued)*

Notes: *(Continued)*

(b) *(Continued)*

Set out below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

Type of properties	Valuation techniques*	Significant unobservable inputs	Range	
			2020	2019
Office buildings or premises	Investment method and direct comparison method	Estimated rental value per square metre and per month (HK\$)	77 to 410	74 to 374
		Capitalisation rate	6.75% to 7.75%	6.75% to 7.75%
		Price per square metre (HK\$)	10,289 to 60,533	10,009 to 57,940

* *Valuations were based on either the investment method by capitalisation of net rental income derived from the existing tenancies with provisions for revisionary rental income potential or the direct comparison method by reference to comparable market transactions.*

A significant increase (decrease) in the estimated rental value or price per square metre in isolation would result in a significantly higher (lower) fair value of the investment properties. A significant increase (decrease) in the capitalisation rate in isolation would result in a significantly lower (higher) fair value of the investment properties.

Generally, a change in the assumption made for the price per square metre is accompanied by a directionally similar change in estimated rental value per square metre and per month and an opposite change in the capitalisation rate.

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16. LEASES

(a) Group as a lessor

Finance lease receivable under a finance lease

One of the Group's solid waste incineration plants in Germany is leased out under a finance lease arrangement, which has a remaining lease term of 3.5 years (2019: 4.5 years).

At 31 December 2020, the maturity analysis of the undiscounted lease payments receivable by the Group in future periods in respect of the finance lease and their present values is as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts receivable:				
Within one year	150,645	138,872	145,885	134,483
After one year but within two years	150,645	138,872	136,046	125,416
After two years but within three years	150,645	138,872	126,879	116,960
After three years but within four years	503,900	138,872	392,068	109,076
After four years but within five years	–	464,526	–	337,068
Total minimum finance lease receivables	955,835	1,020,014	800,878	823,003
Less: Unearned finance income	(154,957)	(197,011)		
Total net receivable under a finance lease	800,878	823,003		
Portion classified as current assets	(98,535)	(84,707)		
Non-current portion	702,343	738,296		

The Group provides for the lifetime ECL for the receivable under a finance lease based on the credit rating of the lessee. Based on historical data and management's analysis, the loss on collection was not material and hence no provision for ECL was considered necessary.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

16. LEASES *(Continued)*

(a) **Group as a lessor** *(Continued)* *Operating leases*

The Group leases its investment properties (note 15) consisting of office buildings or premises in the PRC to third parties under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits. Rental income recognised by the Group during the year was HK\$58,928,000 (2019: HK\$50,310,000), details of which are included in note 6 to the financial statements.

At 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within one year	61,668	76,748
After one year but within two years	25,132	45,501
After two years but within three years	8,854	15,728
Total	95,654	137,977

(b) **Group as a lessee**

The Group has lease arrangements as a lessee for various items of land, office premises, staff quarters, plant and machinery, gas pipelines and motor vehicles for use in its operations. These lease arrangements generally have the following lease terms:

Leasehold land	1 to 50 years
Office premises	1 to 47 years
Plant and machinery	3 to 20 years
Gas pipelines	20 years
Motor vehicles	6 years

Lump sum payments were made upfront to acquire the leased land from the owners, and no ongoing payments will be made under the terms of these land leases. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension options, which are further discussed below.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

16. LEASES *(Continued)*

(b) Group as a lessee *(Continued)*

Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Notes	Leasehold land HK\$'000	Office premises HK\$'000	Plant and machinery HK\$'000	Gas pipelines HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1 January 2019		1,507,429	531,503	57,068	–	–	2,096,000
Acquisition of subsidiaries	43	–	–	–	751,948	–	751,948
Additions		45,390	170,355	22,908	–	14,093	252,746
Depreciation provided during the year	8	(30,606)	(111,258)	(9,279)	(42,581)	(5,174)	(198,898)
Exchange realignment		(22,665)	(11,858)	(1,445)	(25,703)	(239)	(61,910)
At 31 December 2019 and 1 January 2020		1,499,548	578,742	69,252	683,664	8,680	2,839,886
Acquisition of subsidiaries	43	57	536	–	–	–	593
Additions		3,698	42,513	9,463	–	5,853	61,527
Depreciation provided during the year	8	(31,626)	(121,973)	(9,693)	–	(6,089)	(169,381)
Impairment provided during the year	20	(25,184)	–	–	–	–	(25,184)
Reclassification to property, plant and equipment	14	–	–	–	(683,664)	–	(683,664)
Exchange realignment		78,806	28,252	5,153	–	724	112,935
At 31 December 2020		1,525,299	528,070	74,175	–	9,168	2,136,712

NOTES TO FINANCIAL STATEMENTS

31 December 2020

16. LEASES *(Continued)*

(b) Group as a lessee *(Continued)*

Lease liabilities

The carrying amount of the Group's lease liabilities and the movements during the year are as follows:

	<i>Notes</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
At 1 January		849,017	570,048
New leases		61,527	252,746
Acquisition of subsidiaries	43	593	339,182
Accretion of interest recognised during the year	7	28,993	45,573
Payments		(162,640)	(334,103)
Reclassification to bank and other borrowings		(157,303)	–
Exchange realignment		105,732	(24,429)
At 31 December		725,919	849,017
Portion classified as current liabilities		(117,114)	(164,738)
Non-current portion		608,805	684,279

The maturity analysis of lease liabilities is disclosed in note 49 to the financial statements.

Extension options

The Group has several lease contracts that include extension options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and they are aligned with the Group's business needs. Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension options that are not included in the lease terms:

2020

	Payable within five years HK\$'000	Payable after five years HK\$'000	Total HK\$'000
Extension options expected not to be exercised	33,705	7,906	41,611

NOTES TO FINANCIAL STATEMENTS

31 December 2020

16. LEASES *(Continued)*

(b) Group as a lessee *(Continued)* *Extension options (Continued)*

2019

	Payable within five years HK\$'000	Payable after five years HK\$'000	Total HK\$'000
Extension options expected not to be exercised	26,090	5,347	31,437

Other lease information

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

	2020 HK\$'000	2019 HK\$'000
Interest on lease liabilities	28,993	45,573
Depreciation of right-of-use assets	169,381	198,898
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales, administrative expenses and other operating expenses)	60,864	177,592
Expense relating to leases of low-value assets (included in administrative expenses)	12,146	11,635
Impairment of right-of-use assets	25,184	–
Total amount recognised in profit or loss	296,568	433,698

The total cash outflow for leases is disclosed in note 44(c) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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17. GOODWILL

	2020 HK\$'000	2019 HK\$'000
At 1 January:		
Cost	16,412,279	16,553,016
Accumulated impairment	(80,207)	–
Net carrying amount	16,332,072	16,553,016
Net carrying amount:		
At 1 January	16,332,072	16,553,016
Acquisition of subsidiaries (<i>note 43</i>)	198,157	84,735
Impairment provided during the year	(438,300)	(81,118)
Exchange realignment	670,077	(224,561)
At 31 December	16,762,006	16,332,072
At 31 December:		
Cost	17,295,096	16,412,279
Accumulated impairment	(533,090)	(80,207)
Net carrying amount	16,762,006	16,332,072

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. GOODWILL *(Continued)*

Impairment testing of goodwill

The carrying amount of the goodwill has been allocated to the relevant business units of the individual operating segments of the Group for impairment testing, which is summarised as follows:

	Notes	2020 HK\$'000	2019 HK\$'000
Piped gas operation	(i)	7,302,379	7,079,157
Brewery operation	(ii)	329,360	373,892
Solid waste treatment operation	(iii)	9,073,187	8,827,484
Others		57,080	51,539
		16,762,006	16,332,072

Notes:

- (i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by an independent professionally qualified valuer based on a value-in-use calculation using cash flow projection which is based on a financial forecast approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projection is 10.6% (2019: 10.6%), which is determined by reference to the average rate for a similar industry and the business risk of the relevant business unit. A growth rate of 3% (2019: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision was considered necessary for the goodwill attributable to the piped gas operation as at 31 December 2020 (2019: Nil).

- (ii) Goodwill attributable to the brewery operation mainly arose from the Group's investment in Yanjing Brewery and from the acquisition of certain of its subsidiaries in prior years.

The recoverable amount of the investment in Yanjing Brewery was determined based on the fair value less costs of disposal by reference to the market value of the shares of Yanjing Brewery held by the Group (Level 1 fair value measurement) as at 31 December 2020 and 2019.

The recoverable amount of each of the investments in other subsidiaries was determined by reference to a valuation prepared by an independent professionally qualified valuer on the value-in-use basis using cash flow projections of individual entities which are based on financial forecasts approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projection is ranged from 14.0% to 16.6% (2019: 11.8%), which is determined by reference to the average rate for a similar industry and the business risk of the relevant business unit. A growth rate of 3% (2019: 5.4%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, an impairment provision of HK\$63,035,000 (2019: HK\$81,118,000) against the goodwill attributable to the brewery operation arising from other subsidiaries was considered necessary which was charged to profit or loss for the year ended 31 December 2020.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Notes: (Continued)

- (iii) Goodwill attributable to the solid waste treatment operation mainly arose from the Group's investments in EEW and M+E Holding GmbH & Co. KG (the "EEW Group") in the Germany, Golden State Waste Management Corporation ("GSWM") and from the acquisition of certain subsidiaries in the Mainland China in prior years.

The recoverable amount of the solid waste treatment operation of the EEW Group has been determined by reference to a business valuation performed by an independent professionally qualified valuer on the value-in-use basis using a cash flow projection which is based on the financial forecast approved by the senior management covering a period of five years. The financial forecast of the EEW Group was based on, inter alia, the assumptions that the scale of the operations remains constant perpetually and the operations can generate cash flows perpetually from the related solid waste treatment projects. The discount rate applied to the cash flow projection is 5.9% (2019: 7.7%), which is determined by reference to the average rate for a similar industry and the business risk of the relevant business units. A growth rate of 1% (2019: 1%) is used for the perpetual period.

The recoverable amount of the solid waste treatment operation of GSWM has been determined on the value-in-use basis using a cash flow projection which is based on a financial forecast prepared by management covering the service concession periods of the relevant solid waste treatment projects. The financial forecast of GSWM was based on, inter alia, the assumptions that the scale of the operations remains constant perpetually and the operations can generate cash flows perpetually from the relevant solid waste treatment projects. The discount rate applied to the cash flow projection is 10.3% (2019: 11.19%), which is determined by reference to the average rate for a similar industry and the business risk of the relevant business units. A growth rate of 3% (2019: 3%) is used for the perpetual period.

The recoverable amount of each of the investments in other subsidiaries with solid waste treatment operation has been determined on the value-in-use basis using cash flow projections of individual entities which are based on financial forecasts approved by the senior management covering a period of ten years. The financial forecasts of individual entities were based on, inter alia, the assumption that the scale of the operations remains constant perpetually and the operations can generate cash flows perpetually from the relevant waste treatment projects. The discount rate applied to the cash flow projection is 10.6% (2019: 11.19%), which is determined by reference to the average rate for a similar industry and the business risk of the relevant business units. A growth rate of 3% (2019: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, an impairment provision of HK\$375,265,000 (2019: Nil) against the goodwill attributable to the solid waste treatment operation in the Mainland China was considered necessary in response to an adverse change in a government policy regarding the renewable energy tariff subsidy, and was charged to profit or loss for the year ended 31 December 2020.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in value-in-use calculations

The following describes each key assumption adopted by management in the preparation of the cash flow projections for the purpose of impairment testing of goodwill:

Piped gas operation

- (i) Budgeted revenue
The budgeted revenue is based on the projected piped gas sales volume.
- (ii) Budgeted gross margins
In respect of the relevant business units in the piped gas operation segment, the budgeted gross margins are based on the latest selling price of gas up to the date of the valuation report.
- (iii) Discount rate
The discount rate used is before tax and reflects specific risks relating to the piped gas operation.
- (iv) Business environment
 - There will be no major changes in the existing political, legal and economic conditions in Mainland China and other locations in which the assessed entity carried on its business.
 - The gas supply network has already been set up in most urban areas in Beijing where majority of the Group's piped gas operation is located. A high degree of unique features of the gas supply business and high construction and fixed costs in establishing alternative gas supply network in urban districts in Beijing create an exceptionally high entry barrier for other operators to enter into these regions. Therefore, in the opinion of the directors, the Group's piped gas operation can generate income perpetually.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in value-in-use calculations (Continued)

Brewery operation

- (i) Budgeted revenue
The budgeted revenue is based on the projected brewery products sales volume.
- (ii) Budgeted gross margins
The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, having adjusted for expected market development.
- (iii) Discount rate
The discount rate used is before tax and reflects specific risks relating to the brewery operation.
- (iv) Business environment
There will be no major changes in the existing political, legal and economic conditions in Mainland China in which the assessed entity carried on its business.

Solid waste treatment operation

- (i) Budgeted revenue
 - The budgeted revenue is based on the projected solid waste treatment volume and the latest service fees of solid waste collection and selling prices of electricity, steam and heat up to the date of the forecast.
 - During the year, there was a change in the government policy in relation to the renewable energy tariff subsidy, which the Group will no longer be entitled to the relevant subsidy under prescribed circumstances, including when the operation period of a solid waste incineration plant exceeds prescribed lifetime operation hours.
- (ii) Budgeted gross margins
The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, having adjusted for expected efficiency improvements, and expected market development.
- (iii) Discount rates
The discount rates used are before tax and reflect specific risks relating to the relevant units.
- (iv) Business environment
There will be no major changes in the existing political, legal and economic conditions in Germany and Mainland China.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

18. SERVICE CONCESSION ARRANGEMENTS

The Group operates a number of service concession arrangements with governmental authorities in Mainland China on a Build-Operate-Transfer (“BOT”) or a Transfer-Operate-Transfer (“TOT”) basis in respect of solid waste treatment operations. These service concession arrangements generally involve the Group as an operator (i) constructing the infrastructures for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the infrastructures at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 15 to 40 years (the “service concession periods”).

The Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to, where appropriate, use all the property, plant and equipment of the infrastructures, however, the relevant governmental authorities as grantors will control and regulate the scope of services the Group must provide with the infrastructures, and retain the beneficial entitlement to any residual interest in the infrastructures at the end of the term of the service concession periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authorities in Mainland China that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the infrastructures to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes.

The accounting policies in respect of the classification of the service concession arrangements between intangible assets (operating concessions) and financial assets (receivables under service concession arrangements) are set out under the heading of “Service concession arrangements” in note 2.4 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Operating concessions

	Notes	2020 HK\$'000 (note (a))	2019 HK\$'000 (note (a))
At 1 January:			
Cost		4,885,807	3,961,393
Accumulated amortisation and impairment		(1,101,979)	(980,243)
Net carrying amount		3,783,828	2,981,150
Net carrying amount:			
At 1 January		3,783,828	2,981,150
Additions		985,018	1,237,298
Actual cost adjustment		(19,333)	(83,552)
Amortisation provided during the year	8	(155,903)	(131,863)
Impairment provided during the year	20(b)	(596,645)	(158,889)
Exchange realignment		251,883	(60,316)
At 31 December		4,248,848	3,783,828
At 31 December:			
Cost		6,220,248	4,885,807
Accumulated amortisation and impairment		(1,971,400)	(1,101,979)
Net carrying amount		4,248,848	3,783,828

NOTES TO FINANCIAL STATEMENTS

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18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	Notes	2020 HK\$'000	2019 HK\$'000
Receivables under service concession arrangements attributable to solid waste treatment operations	(a), (b)	3,077,283	2,477,807
Portion classified as current assets		(110,388)	(97,552)
Non-current portion		2,966,895	2,380,255

Notes:

- (a) The operating concessions of the Group are mainly attributable to solid waste treatment operations.

At 31 December 2020, the Group had 16 (2019: 12) service concession arrangements on solid waste treatment with certain governmental authorities in Mainland China, of which 4 (2019: 3) solid waste treatment operation concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) with an aggregate net carrying amount of HK\$3,178,871,000 (2019: HK\$2,131,394,000) were pledged to secure certain bank loans granted to the Group (note 34(c)).

- (b) In respect of the Group's receivables under service concession arrangements, settlement of such receivables is closely monitored in order to minimise any credit risk associated with the receivables.

The Group provides for lifetime ECL for receivables under service concession arrangements, based on the credit rating of the debtors. Based on historical data and management's analysis, the loss on collection was not material and hence no provision for ECL against the receivables under service concession arrangements as at 31 December 2020 was considered necessary (2019: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: *(Continued)*

(c) Details of contract assets attributable to service concession arrangements as at the end of the reporting period are as follows:

	31 December 2020 <i>HK\$'000</i>	31 December 2019 <i>HK\$'000</i>	1 January 2019 <i>HK\$'000</i>
Contract assets included in:			
Operating concessions	2,122,312	1,286,977	437,902
Receivables under service concession arrangements	689,926	305,576	80,374
Total contract assets	2,812,238	1,592,553	518,276

Contract assets are initially recognised for revenue earned from the provision of construction services for solid waste incineration plants during the period of construction under service concession arrangements. Pursuant to the service concession agreements, the Group receives no payment from grantors during the construction period and receives service fees when relevant solid waste collection service is rendered. The receivables under service concession arrangements (including the contract assets therein) are not yet due for payment and will be settled by service fees to be received during the operating periods of the service concession arrangements. Amounts billed will then be transferred to trade receivables. The Group's trading terms and credit policy with customers are disclosed in note 26 to the financial statements.

The increase in contract assets as at 31 December 2020 was the result of the increase in ongoing service concession arrangements at initial construction stage which caused more unbilled amounts.

NOTES TO FINANCIAL STATEMENTS

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19. OTHER INTANGIBLE ASSETS

	Notes	Customer contracts HK\$'000	Operating concessions HK\$'000	Patents HK\$'000	Computer software HK\$'000	Total HK\$'000
Year ended 31 December 2020						
At 1 January 2020:						
Cost		3,533,422	419,322	51,051	604,797	4,608,592
Accumulated amortisation		(816,927)	(34,977)	(8,880)	(374,049)	(1,234,833)
Net carrying amount		2,716,495	384,345	42,171	230,748	3,373,759
Net carrying amount:						
At 1 January 2020		2,716,495	384,345	42,171	230,748	3,373,759
Acquisition of subsidiaries	43	–	–	–	748	748
Additions		–	–	–	156,571	156,571
Amortisation provided during the year	8	(166,670)	(12,904)	(1,992)	(156,000)	(337,566)
Impairment provided during the year	20	–	(55,123)	–	–	(55,123)
Exchange realignment		217,279	21,862	807	15,765	255,713
At 31 December 2020		2,767,104	338,180	40,986	247,832	3,394,102
At 31 December 2020:						
Cost		3,828,652	439,951	51,051	807,028	5,126,682
Accumulated amortisation and impairment		(1,061,548)	(101,771)	(10,065)	(559,196)	(1,732,580)
Net carrying amount		2,767,104	338,180	40,986	247,832	3,394,102

NOTES TO FINANCIAL STATEMENTS

31 December 2020

19. OTHER INTANGIBLE ASSETS *(Continued)*

	Notes	Customer contracts HK\$'000	Operating concessions HK\$'000	Patents HK\$'000	Computer software HK\$'000	Total HK\$'000
Year ended 31 December 2019						
At 1 January 2019:						
Cost		3,633,162	72,765	51,051	542,145	4,299,123
Accumulated amortisation		(674,022)	(20,448)	(6,643)	(325,814)	(1,026,927)
Net carrying amount		2,959,140	52,317	44,408	216,331	3,272,196
Net carrying amount:						
At 1 January 2019		2,959,140	52,317	44,408	216,331	3,272,196
Acquisition of subsidiaries	43	–	358,646	–	–	358,646
Additions		–	–	–	72,224	72,224
Amortisation provided during the year	8	(166,114)	(13,050)	(2,002)	(54,268)	(235,434)
Exchange realignment		(76,531)	(13,568)	(235)	(3,539)	(93,873)
At 31 December 2019		2,716,495	384,345	42,171	230,748	3,373,759
At 31 December 2019:						
Cost		3,533,422	419,322	51,051	604,797	4,608,592
Accumulated amortisation		(816,927)	(34,977)	(8,880)	(374,049)	(1,234,833)
Net carrying amount		2,716,495	384,345	42,171	230,748	3,373,759

NOTES TO FINANCIAL STATEMENTS

31 December 2020

20. IMPAIRMENT TESTING OF NON-CURRENT ASSETS OF CERTAIN OPERATIONS

Certain of the Group's brewery plants have been loss-making for some time and, during the year, there was an adverse change in the government policy in connection with the Group's solid waste treatment operation in Mainland China and the operations of a solid waste incineration plant in Mainland China continued to be suspended under a local government's instruction. These events constituted impairment indications of the non-current assets attributable to the relevant cash-generating units, including property, plant and equipment, right-of-use assets, operating concessions and other intangible assets. Accordingly, the Group carried out an impairment testing of these assets as at 31 December 2020 in accordance with HKAS 36 *Impairment of Assets*, which is summarised as follows:

(a) Brewery operation

In respect of the loss-making brewery plants, the directors had estimated the recoverable amounts (which is the fair value less costs of disposal ("FV")) of their non-current assets (the "Brewery Assets") for the purpose of impairment testing.

In this connection, the Company had engaged CHFT Advisory and Appraisal Limited, an independent professional valuer, to assess the FV of the relevant CGUs of the brewery operation to derive the FV of the Brewery Assets. The FV was determined by reference to valuations performed by the valuer using the market approach, by reference to the prices at which an orderly transaction to sell these Brewery Assets would take place. The fair value measurement used significant unobservable inputs (Level 3 of the fair value hierarchy).

Below is a summary of the valuation techniques used and the key inputs used in assessing the FV of the CGUs in brewery operation during the year:

	Valuation techniques	Significant unobservable inputs	Range or weighted average
Property, plant and equipment and right-of-use assets	Market approach	Selling land unit rate (per square metre)	RMB150 to RMB7,463
		Selling building unit rate (per square metre)	RMB2,435 to RMB12,581

NOTES TO FINANCIAL STATEMENTS

31 December 2020

20. IMPAIRMENT TESTING OF NON-CURRENT ASSETS OF CERTAIN OPERATIONS *(Continued)*

(a) **Brewery operation** *(Continued)*

Based on the FV assessment of the CGUs of the brewery operation, the directors are of the opinion that impairment losses of HK\$50,850,000 in total against the Brewery Assets were considered necessary which were recognised as “Other operating expenses, net” in profit or loss during the year and were allocated to non-current assets based on their relative carrying amounts amongst the Brewery Assets as follows:

	<i>HK\$'000</i>
Property, plant and equipment	38,391
Right-of-use assets	12,459
Total impairment losses recognised in profit or loss	50,850

(b) **Solid waste treatment operation**

Year ended 31 December 2020

During the year ended 31 December 2020, there was a change in government policy in relation to the renewable energy tariff subsidy, which the Group will be no longer entitled to the relevant subsidies under certain circumstances, including when the operation period of a solid waste incineration plant has exceeded prescribed lifetime operation hours, and therefore the Group's future operating cash flows from the solid waste treatment operation might be adversely affected.

In addition, a solid waste incineration plant of the Group in Taian province, the PRC (the “Taian Plant”) has been suspended from operations under a local government's instruction since 2019 in relation to the new environmental protection and emission measures. Based on the latest understanding between the Group and the local government authority, it is unlikely for the Taian Plant to resume normal operation in the near future and therefore the future operating cash flows from the Taian Plant is adversely affected.

In view of the afore-mentioned adverse change in the government policy during the year and the suspension of the Taian Plant, the directors had estimated the recoverable amounts (which is the value-in-use (“VIU”)) of the non-current assets of the solid waste treatment operation (the “Solid Waste Treatment Assets”) for the purpose of impairment testing.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

20. IMPAIRMENT TESTING OF NON-CURRENT ASSETS OF CERTAIN OPERATIONS *(Continued)*

(b) Solid waste treatment operation *(Continued)* *Year ended 31 December 2020 (Continued)*

In this connection, the Company had engaged CHFT Advisory and Appraisal Limited, an independent professional valuer, to assess the VIU of the relevant CGUs of the solid waste treatment operation to derive the VIU of the Solid Waste Treatment Assets using the discounted cash flow method. In assessing the VIU of each of the CGUs, the future cash flows of the solid waste treatment operation, which cover periods to the concession/operation end date of the respective plants, are discounted to present values using a pre-tax discount rate that reflects current assessments of the time value of money and the risks specific to such business. Parameters used in the projected cash flows included but not limited to waste treatment fees, volumes of wastes handled, electricity prices, volumes of electricity generated, plant operation cost and other expenses, capital expenditure, the operation plan, revenue growth rates, expected inflation rates and the discount rate, which reflected the current conditions of the market and estimated trend in the future. The fair value measurement used significant unobservable inputs (Level 3 of the fair value hierarchy).

Below is a summary of the valuation techniques used and the key inputs used in assessing the VIU of the CGUs in solid waste treatment operation during the year:

	Valuation techniques	Significant unobservable inputs	Range or weighted average
Property, plant and equipment, right-of-use assets, operating concessions and other intangible assets	Discounted cash flow method	(i) Revenue growth rates (per annum)	3% to 20%
		(ii) Expected inflation rates in the PRC (per annum)	3%
		(iii) Pre-tax discount rate*	10.3% to 10.6%

* The pre-tax discount rate was evaluated under the Capital Assets Pricing Model (the "CAPM"); the appropriate expected rate of return was the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of CGUs was expected to be affected by firm specific risk factors that are independent of the general market. The rates were arrived at the weighted average of the cost of equity and the cost of debt before tax of the respective CGUs.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

20. IMPAIRMENT TESTING OF NON-CURRENT ASSETS OF CERTAIN OPERATIONS *(Continued)*

(b) **Solid waste treatment operation** *(Continued)* *Year ended 31 December 2020 (Continued)*

Based on the VIU assessment of the CGUs of the solid waste treatment operation, the directors are of the opinion that impairment losses of HK\$719 million in total against the Solid Waste Treatment Assets were considered necessary which were recognised as “Other operating expenses, net” in profit or loss during the year and were allocated to non-current assets based on their relative carrying amounts amongst the Solid Waste Treatment Assets as follows:

	<i>HK\$'000</i>
Property, plant and equipment	54,550
Right-of-use assets	12,725
Operating concessions	596,645
Other intangible assets	55,123
Total impairment losses recognised in profit or loss	719,043

Year ended 31 December 2019

During the year ended 31 December 2019, an impairment loss of HK\$158,889,000 was recognised against operating concessions related to (i) a solid waste incineration plant in Changde, the PRC which was forced to suspend from operations under the instruction of the local government due to the failure to meet relevant PRC environmental and air pollutant emission standards; and (ii) another solid waste incineration plant in Ha’erbin, the PRC, which has been underperforming due to extreme cold weather in winter. Impairment assessments had been performed with respect to the operating concessions of the two solid waste incineration plants as at 31 December 2019 and their recoverable amounts were determined based on (i) the latest negotiation of the compensation plan which has not been finalised with the local government as at the date of approval of these financial statements; and (ii) a valuation performed by an independent professional valuer on the value-in-use basis using cash flow projection based on a financial forecast approved by the senior management and discounted at a pre-tax discount rate of 11.19%.

NOTES TO FINANCIAL STATEMENTS

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21. INVESTMENTS IN JOINT VENTURES

	2020 HK\$'000	2019 HK\$'000
Share of net assets	392,516	327,691

All joint ventures of the Group are not individually material.

22. INVESTMENTS IN ASSOCIATES

	Notes	2020 HK\$'000	2019 HK\$'000
Share of net assets	(b), (c)	50,322,133	46,575,985
Goodwill on acquisition, net of impairment	(b), (c)	10,660,016	10,668,850
		60,982,149	57,244,835

Notes:

(a) Particulars of the material associates, which are all indirectly held by the Company, are as follows:

Company name	Place of incorporation/ registration and business	Particulars of issued capital held	Percentage of		
			Ownership interest attributable to the Group	Voting power	Profit sharing
中石油北京天然氣管道有限公司 ("PetroChina Beijing Gas")	PRC/Mainland China	Paid-up capital	40	40	40
BE Water [†]	Bermuda	Ordinary shares	41.13	41.13	41.13
China Gas Holdings Limited ("China Gas") [‡]	Bermuda	Ordinary shares	23.74	23.74	23.74
PJSC Verkhnechonskneftegaz ("VCNG")	Russia	Ordinary shares	20	20	20

NOTES TO FINANCIAL STATEMENTS

31 December 2020

22. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(a) *(Continued)*

^π *BE Water is a company listed on the Main Board of the Hong Kong Stock Exchange. The market value of the shares of BE Water held by the Group as at 31 December 2020 and the date of approval of these financial statements, based on its then quoted market prices, amounted to approximately HK\$12.9 billion (2019: HK\$16.2 billion) and HK\$12.2 billion (2019: HK\$12.5 billion), respectively.*

During the year ended 31 December 2019, the Group's equity interest in BE Water was diluted from 42.43% to 41.13% upon the (i) exercise of 9,810,000 share options by certain option holders of BE Water and (ii) placing of 598,397,150 new ordinary shares, resulting in a total gain on deemed disposals of HK\$187,453,000 recognised by the Group in profit or loss.

^Ω *China Gas is a company listed on the Main Board of the Hong Kong Stock Exchange. The market value of the shares of China Gas held by the Group as at 31 December 2020 and the date of approval of these financial statements, based on its then quoted market prices, amounted to approximately HK\$38.1 billion (2019: HK\$36.1 billion) and HK\$39.4 billion (2019: HK\$33.4 billion), respectively.*

During the year ended 31 December 2020, the Group's equity interest in China Gas increased from 23.72% to 23.74% after the repurchase of certain of its shares from the market by China Gas.

During the year ended 31 December 2019, the Group's equity interest in China Gas decreased from 24.36% to 23.72% upon the exercise of 147,094,000 shares options by certain option holders of China Gas, resulting in a gain on deemed disposal of HK\$150,662,000 recognised by the Group in profit or loss.

(b) Material associates disclosures

The Group's associates are accounted for using the equity method and the principal activities of the four material associates are as follows:

- (i) PetroChina Beijing Gas is engaged in the provision of natural gas transmission services in Mainland China.
- (ii) BE Water and its subsidiaries are engaged in the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, sewage treatment, water treatment and distribution, and the provision of consultancy services and the licensing of technical know-how that is related to sewage treatment in Mainland China and certain overseas countries.
- (iii) China Gas and its subsidiaries are principally engaged in the distribution and sale of piped natural gas, liquefied petroleum gas, and the provision of gas connection service in Mainland China.
- (iv) VCNG is principally engaged in oil, gas and gas condensate fields exploration, production and sale in Russia.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

22. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(b) Material associates disclosures *(Continued)*

The following table illustrates the summarised financial information of the above four material associates which has been adjusted to reflect the fair values of identifiable assets and liabilities at the respective dates of acquisition by the Group, and reconciled to the carrying amount in the consolidated financial statements:

	PetroChina Beijing Gas		BE Water		China Gas*		VCNG	
	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current assets	865,974	1,689,376	41,447,441	35,251,473	44,235,262	40,875,758	4,699,128	6,496,258
Non-current assets	46,814,150	46,250,119	132,953,680	115,909,453	80,032,909	70,261,885	38,514,200	41,611,839
Current liabilities	(6,983,419)	(7,302,426)	(51,922,001)	(48,977,911)	(46,840,154)	(46,614,899)	(1,987,598)	(2,899,838)
Non-current liabilities	(4,761,905)	(6,179,775)	(65,355,115)	(55,651,839)	(26,328,489)	(23,580,827)	(7,037,795)	(7,508,800)
Net assets	35,934,800	34,457,294	57,124,005	46,531,176	51,099,528	40,941,917	34,187,935	37,699,459
Less: Non-controlling interests	–	–	(19,780,193)	(15,982,726)	(7,214,345)	(5,723,259)	–	–
Net assets attributable to shareholders of the associates	35,934,800	34,457,294	37,343,812	30,548,450	43,885,183	35,218,658	34,187,935	37,699,459
Reconciliation to the Group's investments in the associates								
Proportion of the Group's ownership	40%	40%	41.13%	41.13%	23.74%	23.72%	20%	20%
Group's share of net assets of the associates, excluding goodwill recognised by the Group	14,373,920	13,782,918	15,359,510	12,564,578	10,418,342	8,353,866	6,837,587	7,539,892
Goodwill on acquisition recognised by the Group	–	–	443,586	443,586	8,040,362	8,040,362	1,730,028	1,738,957
Other reconciling items	–	–	(29,179)	(29,179)	–	–	–	–
Carrying amount of the investments	14,373,920	13,782,918	15,773,917	12,978,985	18,458,704	16,394,228	8,567,615	9,278,849
Other disclosures								
Revenue	10,006,223	11,410,349	25,360,587	28,192,464	58,779,168	58,434,366	14,205,715	22,301,962
Profit for the year	3,407,655	4,638,461	5,240,541	5,842,589	10,465,331	9,820,313	3,529,169	6,060,533
Profit for the year attributable to shareholders of the associates	3,407,655	4,638,461	4,183,466	4,925,718	9,368,398	8,908,260	3,529,169	6,060,533
Other comprehensive income/(loss) for the year	–	–	1,841,893	(908,785)	2,353,079	(1,923,382)	–	–
Other comprehensive income/(loss) for the year attributable to shareholders of the associates	–	–	3,498,232	(748,365)	2,072,070	(1,686,347)	–	–
Share of the associates' profit for the year	1,363,062	1,855,384	1,720,660	2,026,934	2,199,161	2,117,109	705,834	1,212,107
Share of the associates' other comprehensive income/(loss) for the year	–	–	1,438,823	(307,952)	491,723	(386,902)	–	–
Dividend received/receivable by the Group	1,650,319	1,440,250	667,718	783,031	618,945	544,572	810,626	980,460

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22. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(b) Material associates disclosures *(Continued)*

* The statutory financial year end date of China Gas is 31 March, which is not coterminous with that of the Company's financial year end date. The financial statements for the twelve months ended 30 September 2020 are the latest financial statements of China Gas available for equity accounting by the Group. Accordingly, the financial period end of the financial statements of China Gas for which the equity accounting method was used for the year ended 31 December 2020 is as of 30 September 2020 or for the twelve months ended 30 September 2020.

(c) The following table illustrate the aggregate financial information of the Group's associates that are not individually material:

	2020 HK\$'000	2019 HK\$'000
Share of the associates' loss for the year	(1,030,318)	(229,116)
Share of the associates' other comprehensive loss for the year	(39,158)	–
Share of net assets of the associates	3,361,953	4,363,910
Goodwill on acquisition recognised by the Group, net of impairment	446,040	445,945

(d) Subsequent to the reporting period, on 17 January 2021, Blue Sky, an associate of the Group, publicly announced that its management has identified a number of suspicious transactions and questionable assets in its group (the "Incident") and following this public announcement, the shares of Blue Sky have been suspended from trading since then. The directors of the Company considered that the Incident has already existed as at 31 December 2020 and therefore the Group's interest in Blue Sky might be adversely affected.

In view of the this, the directors of the Company had estimated the recoverable amount (which is the FV) of the Group's interest in Blue Sky for the purpose of impairment testing. The FV was measured based on the unadjusted quoted price in the active market (Level 1 of the fair value hierarchy) which was the share price of Blue Sky as at 31 December 2020. Based on the FV assessment, the directors of the Company are of the opinion that a loss allowance of HK\$1,124 million against the Group's interest in Blue Sky was considered necessary which was recognised in the "Share of profits and losses of associates" line item on the face of the consolidated statement of profit or loss for the year ended 31 December 2020.

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23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 HK\$'000	2019 HK\$'000
Listed equity investments, at fair value		
– Beijing Jingneng Clean Energy Co., Limited	500,289	267,871
– Biosino Bio-Technology and Science Incorporation	43,065	43,065
– CNPC Capital Company Limited	1,986,124	2,403,413
	2,529,478	2,714,349
Unlisted equity investments, at fair value	703,639	569,868
	3,233,117	3,284,217

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

As at the date of approval of these financial statements, the fair value of the above listed equity investments of the Group, based on their then quoted market prices, amounted to approximately HK\$2.1 billion.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 HK\$'000	2019 HK\$'000
Unlisted fund investment	2,400,086	2,265,249
Principal-protected investment deposits	238,095	–
	2,638,181	2,265,249

These financial assets were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

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25. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Raw materials	4,129,795	3,947,568
Work in progress	431,806	649,183
Finished goods	582,359	592,437
	5,143,960	5,189,188

26. TRADE RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	7,040,022	6,221,099
Impairment (<i>note (d)</i>)	(269,157)	(191,649)
	6,770,865	6,029,450

Notes:

- (a) Included in the Group's trade receivables as at 31 December 2020 were aggregate amounts of HK\$45,425,000 (2019: HK\$36,420,000) and HK\$111,519,000 (2019: HK\$74,983,000) due from fellow subsidiaries and a joint venture of the Group, arising from transactions carried out in the ordinary course of business of the Group, respectively. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the Group to its major customers.
- (b) At 31 December 2020, trade receivables amounting to HK\$56,937,000 (2019: HK\$21,431,000) were pledged to secure certain bank loans (*note 34(c)*).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

- (c) Various group companies have different credit policies, depending on the requirements of their markets and the businesses which they operate. Ageing analysis of trade receivables is prepared and closely monitored in order to minimise any credit risk associated with the receivables. The Group does not hold any collateral or other credit enhancement over its trade receivables.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	2020 HK\$'000	2019 HK\$'000
Billed:		
Within one year	3,721,305	3,987,212
One to two years	176,892	63,304
Two to three years	56,807	26,112
Over three years	13,066	67,730
	3,968,070	4,144,358
Unbilled*	2,802,795	1,885,092
	6,770,865	6,029,450

* The unbilled balance was attributable to the sale of natural gas near the year end date and such sale will be billed in the next meter reading date.

- (d) The movements in the impairment of trade receivables during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
At 1 January	191,649	258,787
Impairment losses recognised/(reversed) during the year, net (<i>note 8</i>)	55,541	(56,825)
Amount written off as uncollectible	–	(8,181)
Exchange realignment	21,967	(2,132)
At 31 December	269,157	191,649

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on invoice dates for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(d) *(Continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

At 31 December 2020

	Unbilled	Billed				Total
		Within 1 year	1 to 2 years	2 to 3 years	Over 3 years	
Expected credit loss rate	0.30%	0.45%	17.69%	21.39%	95.43%	3.82%
Gross carrying amount (HK\$'000)	2,802,795	3,776,394	186,503	68,780	205,550	7,040,022
Expected credit losses (HK\$'000)	8,362	16,951	32,987	14,710	196,147	269,157

At 31 December 2019

	Unbilled	Billed				Total
		Within 1 year	1 to 2 years	2 to 3 years	Over 3 years	
Expected credit loss rate	1.18%	1.18%	8.28%	26.26%	62.45%	3.08%
Gross carrying amount (HK\$'000)	1,885,092	4,077,779	54,378	28,833	175,017	6,221,099
Expected credit losses (HK\$'000)	22,245	48,025	4,505	7,572	109,302	191,649

NOTES TO FINANCIAL STATEMENTS

31 December 2020

27. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	2020 HK\$'000	2019 HK\$'000
Prepayments		2,801,309	1,408,855
Deposits and other receivables	(a)	1,613,158	1,373,289
Due from holding companies	28	1,630,744	1,550,564
Due from fellow subsidiaries	28	125,000	117,978
Due from a joint venture	28	93,333	88,090
Due from associates	28	60,659	30,565
Due from related parties	28	134,440	104,332
Contract assets	(b)	602,707	319,061
		7,061,350	4,992,734
Impairment allowance	(c)	(428,246)	(415,967)
		6,633,104	4,576,767
Portion classified as current assets		(4,743,928)	(3,638,798)
Non-current portion		1,889,176	937,969

Notes:

- (a) The Group's deposits and other receivables as at 31 December 2020 and 2019 include, inter alia, the following:
- (i) certain deposits of HK\$118,002,000 (2019: HK\$131,377,000) in total paid for the construction or purchase of buildings, gas pipelines, equipment and machinery, which were classified as non-current assets; and
 - (ii) a deposit of EUR4 million (equivalent to HK\$38 million) (2019: EUR3 million (equivalent to HK\$24 million)) paid to a bank for securing certain bank facilities granted. Such deposit will be refunded upon the expiry of the banking facilities (note 34(c)).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

27. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS *(Continued)*

Notes: *(Continued)*

- (b) Contract assets arise from solid waste treatment service contracts and are initially recognised for revenue earned from the provision of construction services as the receipt of consideration is conditional on successful completion of the construction services. The increases in contract assets in 2020 and 2019 were the result of the increase in the provision of construction services close to the end of each of the years.

The expected timing of recovery or settlement of the Group's contract assets as at the end of the reporting period is as follows:

	31 December 2020 HK\$'000	31 December 2019 HK\$'000	1 January 2019 HK\$'000
Within one year	599,919	308,962	161,187
After one year	2,788	10,099	10,255
Total contract assets	602,707	319,061	171,442

- (c) In respect of impairment consideration of the Group's other receivables and contract assets, an impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. At 31 December 2020, the probability of default applied for other receivables ranged from 0.05% to 0.07% (2019: 0.05% to 0.10%) and the loss given default was estimated to range from 57.68% to 64.87% (2019: 57.10% to 69.60%), whereas the probability of default applied for contract assets ranged from 0.05% to 0.07% (2019: 0.05% to 0.10%) and the loss given default rate was estimated to range from 57.68% to 64.87% (2019: 57.10% to 69.60%).

In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

The movements in the impairment of other receivables and contract assets during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
At 1 January	415,967	214,389
Impairment losses recognised during the year, net <i>(note 8)</i>	1,422	205,253
Exchange realignment	10,857	(3,675)
At 31 December	428,246	415,967

Other than those mentioned above, the financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. At 31 December 2020 and 2019, the loss allowance was assessed to be minimal.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

28. BALANCES WITH HOLDING COMPANIES/FELLOW SUBSIDIARIES/A JOINT VENTURE/ ASSOCIATES/RELATED PARTIES

The balances with holding companies, fellow subsidiaries, a joint venture, associates and related parties are unsecured, interest-free and repayable on demand, except for:

- (i) an aggregate amount of RMB78,400,000 (equivalent to HK\$93,333,000) (2019: RMB78,400,000 (equivalent to HK\$88,090,000)) due from a joint venture, which is unsecured, bears interest at the rate of 3.92% (2019: 3.92%) per annum and is repayable within one year. Interest income of RMB2,950,000 (equivalent to HK\$3,314,000) (2019: RMB2,953,000 (equivalent to HK\$3,355,000)) was recognised in profit or loss in respect of this balance. The joint venture had been loss-making and in view of the deteriorating operating results of the joint venture, the Group provided for an impairment of the amount due from the joint venture of RMB78,400,000 (equivalent to HK\$93,333,000 (2019: HK\$88,090,000)) during the year ended 31 December 2019; and
- (ii) interest-bearing loans of HK\$1,032 million (2019: HK\$907 million) advanced from an associate, further details of which are set out in note 34(b)(ii) to the financial statements.

The trade balances with fellow subsidiaries and a joint venture of the Group included in trade receivables and trade and bills payables are disclosed in notes 26(a) and 40 to the financial statements, respectively.

29. RESTRICTED CASH AND PLEDGED DEPOSITS

	Notes	2020 HK\$'000	2019 HK\$'000
Restricted cash	(a)	28,526	26,923
Pledged deposits	(b)	8,353	9,778
Restricted cash and pledged deposits		36,879	36,701

Notes:

- (a) Restricted cash of the Group represented the proceeds of a government surcharge of HK\$28,526,000 (2019: HK\$26,923,000) collected prior to 2003 by Beijing Gas, a wholly-owned subsidiary indirectly held by the Company, from piped gas customers on behalf of the Beijing Municipal Commission of Development and Reform (the "BMCDR"). The proceeds held on behalf of the BMCDR, which are deposited in a specific bank account of the Group, together with any interest earned therefrom, are repayable to the BMCDR (note 41(a)(i)).
- (b) Bank balances of HK\$8,353,000 (2019: HK\$9,778,000) as at 31 December 2020 were pledged to secure certain bank loans granted to the Group (note 34(c)).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. CASH AND CASH EQUIVALENTS

	2020 HK\$'000	2019 HK\$'000
Cash and bank balances other than time deposits	18,508,289	10,102,694
Saving deposits placed in a financial institution (an associate of the Group) (note 46(a)(x))	209,085	480,695
Time deposits:		
Placed in banks	8,421,862	9,200,602
Placed in a financial institution (an associate of the Group) (note 46(a)(x))	2,020,071	2,411,631
	29,159,307	22,195,622
Less: Restricted cash and pledged deposits (note 29)	(36,879)	(36,701)
Cash and cash equivalents	29,122,428	22,158,921

Notes:

- (a) At 31 December 2020, the cash and deposit balances of the Group denominated in RMB amounted to HK\$24.9 billion (2019: HK\$17.6 billion). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.
- (b) Cash at banks and a financial institution earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and two years (2019: one day and two years) depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The saving and time deposits are deposited with creditworthy banks and a financial institution with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

31. SHARE CAPITAL

	2020 HK\$'000	2019 HK\$'000
Issued and fully paid:		
1,262,053,268 ordinary shares	30,401,883	30,401,883

32. SHARE OPTION SCHEME OF A SUBSIDIARY

BEEGL, a subsidiary of the Group, operates a share option scheme (the “BEEGL Scheme”) for the purpose of (i) attracting and retaining the best quality personnel for the development of its business; (ii) providing incentives and rewards to eligible participants; and (iii) promoting the long term financial success of BEEGL by aligning the interests of grantees to its shareholders. Eligible participants of the BEEGL Scheme include (i) any person employed by BEEGL or a subsidiary of BEEGL and any person who is an officer or director (whether executive or non-executive) of BEEGL or any subsidiary of BEEGL; (ii) any non-executive director and any independent non-executive director, or officer of any member of BEEGL and its subsidiaries (collectively referred to as the “BEEGL Group”); and (iii) any consultant of any member of the BEEGL Group. The BEEGL Scheme became effective on 31 May 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the BEEGL Scheme is an amount equivalent, upon their exercise, to 10% of the number of ordinary shares of BEEGL in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the BEEGL Scheme within any 12-month period is limited to 1% of the ordinary shares of BEEGL in issue at any time. Any further grant of share options in excess of these limits is subject to shareholders’ approval in a general meeting.

Share options granted to a director or chief executive of BEEGL, or to any of their associates, are subject to approval in advance by its independent non-executive directors. In addition, any share options granted to an independent non-executive director of BEEGL, or to any of their associates, in excess of 0.1% of the ordinary shares of BEEGL in issue at any time or with an aggregate value (based on the price of the BEEGL’s ordinary shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting of BEEGL.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of BEEGL, and commences after the acceptance of the share options or a certain vesting period, if any, and ends on a date which is not later than ten years from the date on which the offer of the share options is granted.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

32. SHARE OPTION SCHEME OF A SUBSIDIARY *(Continued)*

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

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

There was no movement in the share options granted under the BEEGL Scheme during the years ended 31 December 2020 and 2019. At the end of the reporting period and the date of approval of these financial statements, BEEGL had 37,620,000 (2019: 37,620,000) share options outstanding under the BEEGL Scheme, which represented approximately 2.5% of BEEGL's ordinary shares in issue at those dates. The exercise price of the share options is HK\$1.25 per share, which is subject to adjustment in the case of rights or bonus issues, or other similar changes in BEEGL's share capital. The share options are exercisable during the period from 21 June 2011 to 20 June 2021. The exercise in full of the outstanding share options would, under the present capital structure of BEEGL, result in the issue of 37,620,000 additional ordinary shares of BEEGL and additional share capital of BEEGL of HK\$67,814,000 (before issue expenses).

33. RESERVES

- (a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.
- (b) The capital reserve of the Group includes (i) gains or losses on acquisition of the non-controlling interests of existing subsidiaries and/or disposal of subsidiaries without a loss of control; and (ii) share of the share option reserves of associates.
- (c) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's PRC subsidiaries, joint ventures and associates. None of the Group's PRC reserve funds as at 31 December 2020 were distributable in the form of cash dividends.

NOTES TO FINANCIAL STATEMENTS

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34. BANK AND OTHER BORROWINGS

	2020 HK\$'000	2019 HK\$'000
Bank loans:		
Secured	1,832,608	799,800
Unsecured	31,574,023	29,355,321
	33,406,631	30,155,121
Other loans:		
Unsecured	3,761,990	2,971,130
Total bank and other borrowings	37,168,621	33,126,251
Analysed into:		
Bank loans repayable:		
Within one year	15,007,607	7,058,107
In the second year	7,632,840	10,071,475
In the third to fifth years, inclusive	9,473,925	11,649,619
Beyond five years	1,292,259	1,375,920
	33,406,631	30,155,121
Other loans repayable:		
Within one year	390,458	302,922
In the second year	322,126	300,913
In the third to fifth years, inclusive	1,160,906	1,010,646
Beyond five years	1,888,500	1,356,649
	3,761,990	2,971,130
Total bank and other borrowings	37,168,621	33,126,251
Portion classified as current liabilities	(15,398,065)	(7,361,029)
Non-current portion	21,770,556	25,765,222

NOTES TO FINANCIAL STATEMENTS

31 December 2020

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

- (a) The carrying amounts of the Group's bank and other borrowings are denominated in the following currencies:

	2020 HK\$'000	2019 HK\$'000
HK\$	19,922,712	18,459,058
RMB	8,706,092	5,742,248
US\$	2,259,003	2,745,555
EUR	6,280,814	6,179,390
	37,168,621	33,126,251

- (b) The Group's bank and other borrowings as at 31 December 2020 included the following:

- (i) amortised cost of an interest-free loan of HK\$138,006,000 (2019: HK\$130,253,000) granted by a non-controlling equity holder of a subsidiary;
- (ii) loans of HK\$1,032 million (2019: HK\$907 million) in total advanced from an associate, which bear interest at rates ranging from 3-month HIBOR plus 1.05% to 5.32% per annum. Interest expenses of HK\$43,259,000 (2019: HK\$38,627,000) were recognised in profit or loss during the year in respect of these loans (note 46(a)(x)); and
- (iii) bank and other loans with an aggregate carrying amount of HK\$2,260,961,000 (2019: HK\$1,969,095,000) advanced from two overseas governments and Asian Infrastructure Investment Bank which were obtained to finance certain of the Group's pipeline construction projects and a liquefied natural gas emergency reserve project. Except for an interest-free loan of HK\$6,359,000 (2019: HK\$6,951,000), these loans mainly bear interest at rates ranging from 2% to LIBOR +1.7% (2019: 2% to 6.3%) per annum.

- (c) The Group's secured bank and other loans are secured by the following assets:

		Carrying amount	
		2020 HK\$'000	2019 HK\$'000
	Notes		
Building	14(a)	282,873	45,322
Operating concessions	18(a)	2,150,308	1,914,871
Receivables under service concession arrangements	18(a)	1,028,563	216,523
Trade receivables	26(b)	56,937	21,431
Deposit paid to a bank	27(a)(iii)	37,880	23,571
Bank balances	29(b)	8,353	9,778

In addition to the pledge of assets given above, bank loans with carrying amounts of HK\$2,414,850,000 (2019: HK\$2,575,350,000) as at 31 December 2020 are guaranteed by the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes: *(Continued)*

- (d) The loan agreements in respect of certain bank loans outstanding as at 31 December 2020 include certain conditions imposing specific performance obligations on the Company's holding companies, among which the following events would constitute events of default on the loan facilities:
- (i) if Beijing Enterprises Group does not or ceases to own, directly or indirectly, at least 40% or 50% of the beneficiary interest of the Company; and
 - (ii) if Beijing Enterprises Group ceases to be controlled and supervised by the Beijing Municipal Government.

A summary of these bank loans as at 31 December 2020 is as follows:

	Year of drawdown	Contractual interest rate per annum	Final maturity
Five-year HK\$3 billion term loan	2016	1-month HIBOR+0.68%	22 November 2021
Five-year HK\$1.94 billion term loan	2016	1-month HIBOR+1.06%	7 December 2021
Five-year HK\$4 billion term loan	2016	1-month HIBOR+0.88%	24 June 2021
Five-year US\$290 million syndicated loan	2017	1-month LIBOR+0.825%	15 May 2022
Five-year HK\$4 billion term loan	2017	1-month HIBOR+0.62%	17 July 2022
Five-year EUR350 million term loan	2018	1-month EURIBOR+1.09%	17 July 2023
US\$50 million revolving loan	2019	1-month HIBOR+0.95%	N/A
US\$60 million revolving loan	2019	1-month HIBOR/LIBOR+0.8%	N/A
EUR80 million revolving loan	2019	1-month HIBOR+0.7%	N/A
HK\$700 million revolving loan	2019	1-month HIBOR+0.8%	N/A
HK\$1,000 million revolving loan	2020	1-month HIBOR+1%	N/A
HK\$1,000 million revolving loan	2020	1-month HIBOR+1%	N/A
Five-year HK\$4 billion term loan	2020	1-month HIBOR+1.1%	27 November 2025

To the best knowledge of the directors, none of the above default events took place during the year and as at the date of approval of these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

35. GUARANTEED BONDS AND NOTES

A summary of the guaranteed bonds and notes issued by the Group and outstanding as at 31 December 2020 is as follows:

	Principal at original currency 'million	Contractual interest rate per annum	Maturity	2020 HK\$'000	2019 HK\$'000
2011 First Senior Notes	US\$600	5%	2021	4,611,320	4,629,044
2011 Second Senior Notes	US\$400	6.375%	2041	3,074,208	3,086,024
2012 Senior Notes	US\$800	4.5%	2022	6,170,101	6,194,234
2015 EUR Bonds	EUR500	1.435%	2020	–	4,373,180
2015 US\$ Bonds	US\$200	4.99%	2040	1,507,778	1,514,275
2017 EUR Bonds	EUR800	1.3%	2022	7,561,416	6,963,249
2017 Guaranteed Notes	US\$500	2.75%	2022	3,864,495	3,881,236
2020 Green Bonds	EUR500	1%	2025	4,683,085	–
				31,472,403	30,641,242
Portion classified as current liabilities				(4,611,320)	(4,373,180)
				26,861,083	26,268,062

Except for the 2017 Guaranteed Notes which are guaranteed by Beijing Gas, all the above guaranteed bonds and notes are guaranteed by the Company.

Further details of the guaranteed bonds and notes are set out in the Company's announcements dated 6 May 2011, 19 April 2012, 30 April 2015, 1 December 2015, 13 April 2017 and 17 September 2020, respectively.

The fair value of the Group's guaranteed bonds and notes as at 31 December 2020 was approximately HK\$33.8 billion (2019: HK\$32.6 billion), based on price quotations from financial institutions at the reporting date.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

36. DEFINED BENEFIT PLANS

Certain employees of Beijing Gas and the EEW Group, both being indirectly-held wholly-owned subsidiaries of the Company, are entitled to retirement benefits after retirement such as supplemental medical reimbursement, allowance and beneficiary benefits pursuant to their defined benefit plans. The plans are exposed to interest rate risk, health cost inflation rate and expected salary increase rate for the employees.

(a) Net benefit expense (recognised in administrative expenses)

	Supplemental post-retirement medical reimbursement plan <i>HK\$'000</i>	Supplemental post-retirement allowance and beneficiary benefit plans <i>HK\$'000</i>	Internal retirement benefit plan <i>HK\$'000</i>	Post- employment physical examination plan <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2020					
Current service cost	49,379	4,929	22,815	6,598	83,721
Past service cost	11,584	1,090	–	1,499	14,173
Interest cost	37,338	8,245	8,668	7,948	62,199
Net benefit expense	98,301	14,264	31,483	16,045	160,093
Year ended 31 December 2019					
Current service cost	46,069	4,863	23,447	6,517	80,896
Past service cost	12,081	1,189	–	1,694	14,964
Interest cost	35,536	8,038	13,280	7,853	64,707
Net benefit expense	93,686	14,090	36,727	16,064	160,567

NOTES TO FINANCIAL STATEMENTS

31 December 2020

36. DEFINED BENEFIT PLANS *(Continued)*

(b) Present value of the defined benefit obligations

2020

	Supplemental post-retirement medical reimbursement plan <i>HK\$'000</i>	Supplemental post-retirement allowance and beneficiary benefit plans <i>HK\$'000</i>	Internal retirement benefit plan <i>HK\$'000</i>	Post- employment physical examination plan <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2020	999,638	223,760	855,079	214,119	2,292,596
Net benefit expenses recognised in profit or loss <i>(note 8)</i>	98,301	14,264	31,483	16,045	160,093
Benefits paid	(8,420)	(7,521)	(21,035)	(3,180)	(40,156)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	(52,049)	(1,938)	95,745	(9,054)	32,704
Exchange realignment	61,753	13,605	78,020	12,971	166,349
At 31 December 2020	1,099,223	242,170	1,039,292	230,901	2,611,586
Portion classified as current liabilities included in other payables, accruals and contract liabilities <i>(note 41)</i>					(20,327)
Non-current portion					2,591,259

NOTES TO FINANCIAL STATEMENTS

31 December 2020

36. DEFINED BENEFIT PLANS *(Continued)*

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

2019

	Supplemental post-retirement medical reimbursement plan <i>HK\$'000</i>	Supplemental post-retirement allowance and beneficiary benefit plans <i>HK\$'000</i>	Internal retirement benefit plan <i>HK\$'000</i>	Post- employment physical examination plan <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019	955,508	218,919	640,030	212,425	2,026,882
Net benefit expenses recognised in profit or loss <i>(note 8)</i>	93,686	14,090	36,727	16,064	160,567
Benefits paid	(8,547)	(10,271)	(19,383)	(3,119)	(41,320)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	(25,307)	4,560	221,922	(7,852)	193,323
Exchange realignment	(15,702)	(3,538)	(24,217)	(3,399)	(46,856)
At 31 December 2019	999,638	223,760	855,079	214,119	2,292,596
Portion classified as current liabilities included in other payables, accruals and contract liabilities <i>(note 41)</i>					(21,780)
Non-current portion					2,270,816

At 31 December 2020, the expected contribution to be made within the next 12 months out of the defined benefit obligations was HK\$20,327,000 (2019: HK\$21,780,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

36. DEFINED BENEFIT PLANS *(Continued)*

(c) Principal assumptions

The most recent actuarial valuations of the present value of the defined benefit obligations for Beijing Gas and the EEW Group were carried out at 31 December 2020 by Willis Towers Watson and Aon Hewitt, respectively, using the projected unit credit method. The material actuarial assumptions used in determining the defined benefit obligations under the Group's plans are as follows:

	2020	2019
Beijing Gas:		
Discount rate	3.75%	3.75%
Healthcare cost inflation rate	7.00%	7.00%
EEW Group:		
Discount rate	0.70%	1.00%
Salary increase rate	2.50%	2.50%

NOTES TO FINANCIAL STATEMENTS

31 December 2020

36. DEFINED BENEFIT PLANS *(Continued)*

(c) Principal assumptions *(Continued)*

A quantitative sensitivity analysis for significant assumptions as at 31 December 2020 and 2019 is shown below:

	Increase in rate %	Increase/ (decrease) in net defined benefit obligations HK\$'000	Decrease in rate %	Increase/ (decrease) in net defined benefit obligations HK\$'000
<u>Beijing Gas</u>				
2020				
Discount rate	0.25	(93,898)	0.25	102,430
Healthcare cost inflation rate	1.00	350,058	1.00	(250,281)
2019				
Discount rate	0.25	(67,126)	0.25	73,594
Healthcare cost inflation rate	1.00	319,565	1.00	(228,501)
<u>EEW Group</u>				
2020				
Discount rate	0.25	(69,918)	0.25	74,432
Salary increase rate	0.50	5,176	0.50	(4,951)
2019				
Discount rate	0.25	(58,636)	0.25	62,397
Salary increase rate	0.50	4,609	0.50	(4,400)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

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37. PROVISION FOR MAJOR OVERHAULS AND ONEROUS CONTRACTS

Pursuant to the service concession arrangements on the Group's solid waste treatment operations in Mainland China, the Group has contractual obligations to maintain the infrastructures it operates to a specified level of serviceability and/or to restore the infrastructures to a specified condition before they are handed over to the grantor at the end of the service concession periods. In addition, pursuant to the contractual arrangement for one of the Group's solid waste incineration plants in Germany, the Group is obliged to demolish the solid waste incineration plant in 2025. These contractual obligations to demolish plant, maintain or restore the infrastructures, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditures on these maintenance, demolition and restoration costs are collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis and revised where appropriate.

In addition, onerous contracts also arise from solid waste treatment service contracts in respect of the solid waste treatment operations in Germany. Management considers the unavoidable costs of meeting the obligations under certain of these contracts exceed the economic benefits expected to be recovered under such contracts.

NOTES TO FINANCIAL STATEMENTS

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37. PROVISION FOR MAJOR OVERHAULS AND ONEROUS CONTRACTS *(Continued)*

The movements in the provision for major overhauls of the infrastructures and onerous contracts in respect of the solid waste treatment service contracts during the year are as follows:

	<i>Notes</i>	Major overhauls HK\$'000	Provision for Onerous contracts HK\$'000	Total HK\$'000
Year ended 31 December 2020				
At 1 January 2020		219,196	185,905	405,101
Additional provision	8	23,088	–	23,088
Increase in a discounted amount arising from the passage of time	7	1,074	–	1,074
Exchange realignment		18,992	15,758	34,750
At 31 December 2020		262,350	201,663	464,013
Portion classified as current liabilities		–	(53,723)	(53,723)
Non-current portion		262,350	147,940	410,290
Year ended 31 December 2019				
At 1 January 2019		201,688	191,230	392,918
Additional provision	8	21,508	–	21,508
Increase in a discounted amount arising from the passage of time	7	1,815	–	1,815
Exchange realignment		(5,815)	(5,325)	(11,140)
At 31 December 2019		219,196	185,905	405,101
Portion classified as current liabilities		–	(49,525)	(49,525)
Non-current portion		219,196	136,380	355,576

NOTES TO FINANCIAL STATEMENTS

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38. OTHER NON-CURRENT LIABILITIES

	<i>Note</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
Other liabilities – non-current portion	41	179,863	171,710
Deferred income (<i>note</i>)		1,774,517	1,651,509
		1,954,380	1,823,219

Note: Deferred income of the Group mainly represented government subsidies in respect of the construction of gas pipelines and brewery plants in Mainland China by the Group. The subsidies are interest-free and not required to be repaid, and are recognised in profit or loss on the straight line basis over the expected useful lives of the relevant assets.

39. DEFERRED TAX

Net deferred tax assets and liabilities recognised in the consolidated statement of financial position are as follows:

	2020 HK\$'000	2019 <i>HK\$'000</i>
Deferred tax assets	1,799,088	1,638,766
Deferred tax liabilities	(2,654,242)	(2,576,094)
	(855,154)	(937,328)

NOTES TO FINANCIAL STATEMENTS

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39. DEFERRED TAX *(Continued)*

The components of deferred tax assets and liabilities and their movements during the years ended 31 December 2020 and 2019 are as follows:

Notes	Attributable to											Net deferred tax assets/(liabilities) HK\$'000
	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Transfer of assets from customers HK\$'000	Depreciation allowances in excess of related depreciation HK\$'000	Revaluation of investment properties HK\$'000	Revaluation of equity investments at fair value through other comprehensive income HK\$'000	Impairment provision and accrued expenses HK\$'000	Defined benefit obligations HK\$'000	Provision for major overhauls and onerous contracts HK\$'000	Temporary differences related to operating concessions HK\$'000	Losses available for offsetting future taxable profits HK\$'000 (note (a))	Withholding tax on unremitted profits HK\$'000 (note (b))	
At 1 January 2019	(1,863,246)	(93,357)	(2,742)	(110,938)	(8,050)	929,866	438,146	75,912	(88,733)	18,267	(122,025)	(826,900)
Acquisition of subsidiaries	43	(89,555)	-	-	-	-	-	-	-	-	-	(89,555)
Deferred tax credited/(charged) to profit or loss during the year	11	73,059	(22,465)	(29,757)	-	37,166	12,010	337	(111,093)	-	-	(40,743)
Deferred tax credited/(charged) to other comprehensive income during the year		-	-	-	(70,901)	-	59,650	-	-	-	-	(11,251)
Exchange realignment		49,245	1,721	5,030	1,745	3,763	(21,851)	(10,461)	(2,016)	4,337	(392)	31,121
At 31 December 2019 and 1 January 2020		(1,830,497)	(114,101)	(27,469)	(109,193)	(75,188)	945,181	499,345	74,233	(195,489)	17,875	(937,328)
Deferred tax credited/(charged) to profit or loss during the year	11	80,213	(7,264)	(8,956)	-	(9,215)	12,416	7,124	(62,417)	-	-	11,901
Deferred tax credited to other comprehensive income during the year		-	-	-	132,218	-	13,059	-	-	-	-	145,277
Exchange realignment		(145,657)	(7,224)	(6,927)	(6,499)	9,095	60,071	36,189	6,452	(21,780)	1,276	(75,004)
At 31 December 2020		(1,895,941)	(128,589)	(43,352)	(115,692)	66,125	996,037	561,009	87,809	(279,686)	19,151	(855,154)

Notes:

- (a) At 31 December 2020, deferred tax assets have not been recognised in respect of unused tax losses of HK\$4,894,193,000 (2019: HK\$4,424,464,000) as they have been arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, tax losses of HK\$4,872,553,000 (2019: HK\$4,402,824,000) will expire in one to five years.
- (b) Pursuant to income tax laws of the PRC, Germany, Luxembourg and Russia, withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in these countries. Lower withholding tax rates may be applied if there is a tax treaty between these countries and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends declared by those subsidiaries, joint ventures and associates established in these countries.

The withholding tax rates applicable to the Group are as follows:

Entities established in Mainland China	5%-10%
Entities established in Germany	25%
Entities established in Luxembourg	15%
Entities established in Russia	5%

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. DEFERRED TAX *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Deferred tax has not been fully recognised for withholding taxes that would be payable on certain portions of the unremitted earnings of certain of the Group's subsidiaries established in Mainland China, Germany and Luxembourg that are subject to withholding taxes. In the opinion of the directors, it is not probable that these subsidiaries will distribute these unremitted earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries in Mainland China, Germany and Luxembourg for which deferred tax liabilities have not been recognised totalled approximately HK\$38 billion (2019: HK\$30 billion) as at 31 December 2020.

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

40. TRADE AND BILLS PAYABLES

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

	2020 HK\$'000	2019 HK\$'000
Billed:		
Within one year	3,176,207	3,142,503
One to two years	137,301	127,634
Two to three years	10,611	3,046
Over three years	13,402	15,923
	3,337,521	3,289,106
Unbilled*	1,362,912	1,219,237
	4,700,433	4,508,343

* The unbilled balance was attributable to (i) purchase of natural gas near the year end which will be billed subsequently in early January 2021; and (ii) accrued extra purchase costs which will be billed when the price is agreed by Beijing Gas with the supplier.

Included in the trade and bills payables as at 31 December 2020 are amounts of HK\$25,804,000 (2019: HK\$19,594,000) in total due to fellow subsidiaries, arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related parties to their major customers.

NOTES TO FINANCIAL STATEMENTS

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41. OTHER PAYABLES, ACCRUALS AND CONTRACT LIABILITIES

	<i>Notes</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
Accruals		1,510,025	1,660,385
Defined benefit obligations – current portion	<i>36(b)</i>	20,327	21,780
Other liabilities	<i>(a)</i>	7,850,536	6,848,191
Due to holding companies	<i>28</i>	2,620,480	2,386,965
Due to related parties	<i>28</i>	841,457	734,242
Contract liabilities	<i>(b)</i>	11,658,281	9,756,058
		24,501,106	21,407,621
Portion classified as current liabilities		(24,321,243)	(21,235,911)
Non-current portion	<i>38</i>	179,863	171,710

Notes:

(a) The Group's other liabilities as at 31 December 2020 included, inter alia, the following:

- (i) an amount of HK\$28,526,000 (2019: HK\$26,923,000) payable to the BMCDR in respect of a government surcharge collected on its behalf by the Group, further details of which are set out in note 29(a) to the financial statements; and
- (ii) construction costs of HK\$319,602,000 (2019: HK\$395,705,000) payable to certain fellow subsidiaries of the Group. The balances with the fellow subsidiaries are unsecured, interest-free, and are repayable within credit periods similar to those offered by the fellow subsidiaries to their major customers.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. OTHER PAYABLES, ACCRUALS AND CONTRACT LIABILITIES *(Continued)*

Notes: *(Continued)*

(b) Details of contract liabilities are as follows:

	31 December 2020 HK\$'000	31 December 2019 HK\$'000	1 January 2019 HK\$'000
<i>Short-term advances received from customers in respect of:</i>			
Sale of piped natural gas	10,296,452	8,666,212	7,553,199
Sale of brewery products	1,323,950	1,029,574	746,260
Provision of solid waste treatment services	37,879	60,272	91,570
Total contract liabilities	11,658,281	9,756,058	8,391,029

Over 90% of the contract liabilities as at the end of each of the reporting period are expected to be recognised as revenue in the following year.

The increase in contract liabilities in 2020 and 2019 was mainly due to the increase in short-term advances received from customers in relation to the sale of piped natural gas at the end of these years.

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

Yanjing Investment (a 79.77% owned subsidiary which holds 57.40% equity interests in Yanjing Brewery) and its subsidiaries (collectively the “Yanjing Investment Group”) were considered subsidiaries that have material non-controlling interests during the years ended 31 December 2020 and 2019, and summary financial information of which is set out below:

	2020 HK\$'000	2019 HK\$'000
Consolidated profit for the year allocated to non-controlling interests	190,762	221,398
Dividends paid to non-controlling equity holders	194,569	166,893
Accumulated balances of non-controlling interests at the reporting date	8,932,400	8,435,750

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

(Continued)

The following tables illustrate the summarised consolidated financial information of the Yanjing Investment Group:

	2020 HK\$'000	2019 HK\$'000
Revenue	11,046,394	11,826,321
Total expenses	(10,886,765)	(11,603,850)
Profit for the year	159,629	222,471
Total comprehensive income for the year	581,824	105,249
Current assets	9,832,765	8,120,803
Non-current assets	13,145,897	13,152,673
Current liabilities	(7,080,022)	(6,424,044)
Non-current liabilities	(819,854)	(570,655)
Net cash flows from operating activities	1,670,430	1,519,945
Net cash flows used in investing activities	(426,092)	(513,660)
Net cash flows used in financing activities	(218,808)	(105,972)
Net increase in cash and cash equivalents	1,025,530	900,313

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

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43. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the subsidiaries acquired and assumed as at the date of acquisition were as follows:

	Notes	2020 HK\$'000 (note (a))	2019 HK\$'000 (note (b))
Net assets acquired:			
Property, plant and equipment	14	118,543	984,455
Right-of-use assets	16(b)	593	751,948
Other intangible assets	19	748	358,646
Investment in an associate		2,067	–
Inventories		137	7,711
Trade receivables		44,380	269,254
Prepayments, other receivables and other assets		324,822	363,874
Cash and cash equivalents		180,573	821,298
Income tax recoverable		–	7,099
Trade and bills payables		(101,138)	(16,203)
Other payables, accruals and contract liabilities		(224,067)	(47,373)
Income tax payables		(8,374)	–
Bank and other borrowings		–	(2,065,581)
Lease liabilities	16(b)	(593)	(339,182)
Deferred tax liabilities	39	–	(89,555)
Other non-current liabilities		(279,896)	–
Total identifiable net assets at fair value		57,795	1,006,391
Non-controlling interest		–	(439,963)
		57,795	566,428
Goodwill on acquisition	17	198,157	84,735
		255,952	651,163
Satisfied by:			
Cash		255,952	–
Capital contribution to the acquiree in cash in 2018		–	651,163
		255,952	651,163

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43. BUSINESS COMBINATIONS *(Continued)*

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2020 HK\$'000	2019 HK\$'000
Cash consideration paid	(255,952)	–
Cash and bank balances acquired	180,573	821,298
Cash consideration prepaid in prior year	111,111	–
Net inflow of cash and bank balances included in cash flows from investing activities	35,732	821,298

Notes:

- (a) In May 2020, Beijing Gas acquired a 100% equity interest in 北京燃氣房山有限責任公司 and its subsidiaries (the “Fangshan Group”) for a total cash consideration of RMB230,356,500 (equivalent to HK\$255,952,000). Fangshan Group is principally engaged in the distribution and sale of piped natural gas and the installation of gas pipelines and related equipment in Fangshan District, Beijing, the PRC.

Since the acquisition, Fangshan Group contributed HK\$479,961,000 to the Group’s revenue and profit of HK\$6,756,000 to the consolidated profit for the year ended 31 December 2020.

Had the above business combination taken place at the beginning of the current year, the Group’s profit for the year ended 31 December 2020 would have been HK\$5,614,892,000 and the Group’s revenue would have been HK\$68,440,179,000.

- (b) In March 2019, Beijing Gas acquired a 60% equity interest in Tangshan Gas by way of a capital contribution of RMB800,000,000 (equivalent to HK\$930,233,000), of which RMB560,000,000 had been injected into Tangshan Gas as at 31 December 2019. Tangshan Gas and its subsidiaries (the “Tangshan Group”) are principally engaged in the distribution and sale of piped natural gas in Hebei province, the PRC.

The Group has elected to measure the non-controlling interest in the subsidiaries acquired at the non-controlling interest’s proportionate share of the identifiable net assets of the subsidiaries acquired.

Since the acquisition, Tangshan Group contributed HK\$1,065,032,000 to the Group’s revenue and loss of HK\$112,112,000 to the consolidated profit for the year ended 31 December 2019.

Had the above business combination taken place at the beginning of the prior year, the Group’s profit for the year ended 31 December 2019 would have been HK\$8,570,847,000 and the Group’s revenue would have been HK\$68,073,511,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions of investing and financing activities

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$61,527,000 (2019: HK\$252,746,000) each in respect of lease arrangements for land, office premises, staff quarters, plant and machinery, gas pipelines and motor vehicles.

(b) Changes in liabilities arising from financing activities

	Notes	Bank and other borrowings HK\$'000	Guaranteed bonds and notes HK\$'000	Lease liabilities HK\$'000
At 1 January 2019		28,497,908	31,024,807	570,048
Acquisition of subsidiaries	43	2,065,581	–	339,182
Changes from financing cash flows		2,891,820	–	(334,103)
New leases	16(b)	–	–	252,746
Interest expense		–	40,209	45,573
Exchange realignment		(329,058)	(423,774)	(24,429)
At 31 December 2019 and 1 January 2020		33,126,251	30,641,242	849,017
Acquisition of subsidiaries	43	–	–	593
Changes from financing cash flows		3,018,964	(47,029)	(162,640)
New leases	16(b)	–	–	61,527
Interest expense		–	31,438	28,993
Reclassification		157,303	–	(157,303)
Exchange realignment		866,103	846,752	105,732
At 31 December 2020		37,168,621	31,472,403	725,919

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

(c) Total cash outflow for leases

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within operating activities	73,010	189,227
Within financing activities	162,640	334,103
	235,650	523,330

45. CAPITAL COMMITMENTS

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Contracted, but not provided for:		
Buildings	–	2,718
Gas pipelines and plant and machinery	12,799,067	4,168,848
Service concession arrangements	500,510	820,597
Total	13,299,577	4,992,163

NOTES TO FINANCIAL STATEMENTS

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46. RELATED PARTY DISCLOSURES

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

Name of related party	Nature of transaction	Notes	2020 HK\$'000	2019 HK\$'000
Non-controlling equity holders of subsidiaries and their associates:				
北京燕京啤酒集團公司 and its associates	Purchase of bottle labels ^y	(i)	68,401	79,439
	Purchase of bottle caps ^y	(i)	37,224	44,656
	Canning service fees paid ^y	(ii)	18,461	34,081
	Comprehensive support service fees paid ^y	(iii)	17,466	17,665
	Land rental expenses ^y	(iv)	1,979	2,001
	Trademark licensing fees paid ^y	(v)	36,630	58,761
	Less: refund for advertising subsidies ^y	(v)	(900)	(7,428)
Fellow subsidiaries:				
北京北燃實業有限公司 and its subsidiaries	Sale of piped natural gas [#]	(vi)	342,819	512,831
	Engineering service income [#]	(vii)	12,709	23,156
	Comprehensive service income [#]	(vii)	3,056	2,023
	Engineering service expenses [#]	(vii)	147,707	165,978
	Comprehensive service expenses [#]	(vii)	162,721	90,345
	Building rental expenses [#]	(viii)	136,754	39,582
	Building rental income [#]	(viii)	835	851
	Purchase of goods [#]	(viii)	33,985	49,016
Associate:	Sale of goods [#]	(ix)	11,864	36,928
北京控股集團財務有限公司 ("BE Group Finance")	Interest expense [@]	(x)	43,259	38,627
	Interest income [@]	(x)	54,351	21,898

^y These related party transactions also constitute continuing connected transactions that are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

[#] These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

[@] These related party transactions also constitute continuing connected transactions that are subject to the announcement, reporting and annual review requirements but are exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

46. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Notes:

- (i) The purchase prices for bottle labels and bottle caps were determined by reference to the agreed prices for the preceding year and an annual adjustment determined by reference to the price index in Beijing in the preceding year.
- (ii) The canning service fees were charged at a rate equal to the costs of the canning services incurred by Yanjing Beer Group plus a mutually-agreed profit margin.
- (iii) The comprehensive support service fees paid include the following:
 - fees for security and canteen services which were determined based on the annual cost of labour, depreciation and maintenance for the preceding year and an annual adjustment by reference to the price index in Beijing; and
 - rental expenses, related to the premises occupied and used by Yanjing Brewery as its office, canteen and staff dormitories, which were determined by reference to the prevailing market rentals at the time when the relevant agreements were entered into.
- (iv) The land rental expenses were charged at a mutually-agreed amount of RMB1,761,000 (2019: RMB1,761,000) per annum.
- (v) The trademark licensing fees paid were for the use of the “Yanjing” trademark and were determined based on 1% (2019: 1%) of the annual sales of beer and mineral water products made by Yanjing Brewery and at a rate of RMB0.008 (2019: RMB0.008) per bottle of beer sold by the subsidiaries of Yanjing Brewery. Yanjing Brewery Group would refund 20% of the trademark licensing fees from sales of beer received from Yanjing Brewery for the use by Yanjing Brewery to develop and promote the “Yanjing” trademark.
- (vi) The selling price of piped natural gas was prescribed by the PRC government.
- (vii) The service fees were determined by reference to the then prevailing market rates and set at prices not higher than the guidance prices set by the PRC government.
- (viii) The purchase prices of goods and the building rentals were determined by reference to the then prevailing market rates.
- (ix) The selling prices of goods were determined on a cost-plus basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

46. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*
Notes: (Continued)

- (x) BE Group Finance is a 38.78% owned associate of the Group and also a subsidiary of Beijing Enterprises Group. BE Group Finance was established to act as a platform for members of Beijing Enterprises Group for the provision of intra-group loan facilities through financial products including deposit-taking, money-lending and custodian services.

On 20 December 2019, the Company and BE Group Finance entered into a deposit agreement (the "Deposit Agreement") whereby the Company and BE Group Finance will continue to carry out transactions under a deposit services master agreement entered on 29 December 2014 for a further period of three years from 1 January 2020 to 31 December 2022. The terms and conditions under the Deposit Agreement are substantially the same as those under the deposit services master agreement and the revised daily aggregate of deposits placed by the Group with BE Group Finance (including any interest accrued thereon) during the term of the Deposit Agreement will not exceed HK\$2.23 billion (2019: HK\$2.9 billion).

Interest rates on deposits placed in and loans offered by BE Group Finance denominated in RMB were determined by reference to the then prevailing market rates offered by the People's Bank of China, while the related interest rates for deposits and loans denominated in other currencies were determined by reference to the then prevailing market rates offered by major banks in the PRC.

The amounts of deposits placed by the Group with BE Group Finance and the amounts of loans borrowed by the Group from BE Group Finance as at the end of reporting period are disclosed in notes 30 and 34(b)(ii) to the financial statements.

(b) Outstanding balances with related parties

- (i) Details of the Group's balances with related parties included in prepayments, other receivables and other assets, cash and cash equivalents, bank and other borrowings and other payables, accruals and contract liabilities are disclosed in notes 27, 28, 30, 34(b)(ii) and 41 to the financial statements.
- (ii) Details of the Group's trade balances with fellow subsidiaries and a joint venture, included in trade receivables and trade and bills payables are disclosed in notes 26(a) and 40 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

46. RELATED PARTY DISCLOSURES *(Continued)*

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

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively “Other SOEs”). During the year, the Group has transactions with Other SOEs including, but not limited to, the sale of piped natural gas, bank deposits and borrowings, and utilities consumptions. The directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group’s business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the Company’s directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(d) Compensation of key management personnel of the Group

	2020 HK\$'000	2019 HK\$'000
Short term employee benefits	11,910	17,610
Pension scheme contributions	29	29
Total compensation paid to key management personnel	11,939	17,639

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

47. FINANCIAL INSTRUMENTS BY CATEGORY

Save certain equity investments being designated as equity investments at fair value through other comprehensive income and financial assets mandatorily measured at fair value through profit or loss, as further detailed in notes 23 and 24 to the financial statements, respectively, all financial assets and financial liabilities of the Group as at 31 December 2020 and 2019 were classified as financial assets and financial liabilities measured at amortised cost.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The fair value measurement hierarchy of the Group's financial instruments are detailed as follows:

- (i) the listed equity investments (note 23) are stated at fair value based on their quoted market prices (as categorised within Level 1 of the fair value hierarchy);
- (ii) the principal-protect investment deposits (note 24) is stated at fair value based on a quoted price with reference to market observable inputs currently available for investments with similar terms and credit risk (as categorised within Level 2 of the fair value hierarchy); and
- (iii) the unlisted fund investment (note 24) is stated at fair value based on a market-based valuation (as categorised within Level 3 of the fair value hierarchy).

The fair value of the unlisted investment fund classified as a financial asset at fair value through profit or loss (note 24) has been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates.

The valuation requires the Company's directors to determine comparable companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to book ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the equity value of the comparable company by a book value measure. The trading multiple is then discounted for considerations such as illiquidity nature of the investment. The discounted multiple is applied to the corresponding earnings measure of the unlisted investment to measure the fair value.

The Company's directors believe that the estimated fair value of the unlisted fund instrument resulting from the valuation technique, which is recorded in the consolidated statement of financial position, is reasonable, and that it was the most appropriate value as at the end of the reporting period.

Management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model and has quantified this as a reduction in fair value of approximately HK\$50 million, using less favourable assumptions, and an increase in fair value of approximately HK\$50 million, using more favourable assumptions.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Below is a summary of significant unobservable inputs to the valuation of the unlisted fund instrument together with a quantitative sensitivity analysis as at 31 December 2020:

Valuation technique	Significant unobservable inputs	Values	Sensitivity of fair value to the inputs
Valuation multiples	Average EV/EBITDA multiple of peers	1.8 to 14.0 (2019: 3.2 to 13.4)	1% (2019: 1%) increase/decrease in multiple would result in an increase/ decrease in fair value by HK\$8,807,000 (2019: HK\$8,640,000)
	Average P/B multiple of peers	0.6 to 4.1 (2019: 0.8 to 4.2)	1% (2019: 1%) increase/decrease in multiple would result in an increase/ decrease in fair value by HK\$14,227,000 (2019: HK\$14,014,000)
	Discount for lack of marketability	14.4% (2019: 14.4%)	1% (2019: 1%) increase/decrease in discount would result in a decrease/ increase in fair value by HK\$26,714,000 (2019: HK\$26,215,000)

The discount for lack of marketability represents the amount of discount determined by the Group that market participants would take into account when pricing the investment.

For other non-current financial assets and liabilities, in the opinion of the directors of the Company, since their carrying amounts are not significantly different from their respective fair values, no disclosure of the fair values of these financial instruments is made.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, the guaranteed bonds and notes and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as equity and fund instruments, trade receivables, contract assets, other receivables and other assets, trade and bills payables, other payables, accruals and contract liabilities, receivables under service concession arrangements and amounts due from/to holding companies, fellow subsidiaries, associates, joint ventures, and related parties.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and fair value risk. The board of directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations.

Banks and other borrowings, the guaranteed bonds and notes, cash and short term deposits are stated at amortised cost and not revalued. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

Interest rate risk *(Continued)*

The following tables set out the carrying amounts, by maturity, of the Group's interest-bearing financial instruments as at the end of the reporting period that are exposed to interest rate risk:

	Carrying amount		Effective interest rate	
	2020 HK\$'000	2019 HK\$'000	2020 %	2019 %
Floating rate:				
Restricted cash and pledged deposits	36,879	36,701	0.35	0.35
Cash and cash equivalents	18,680,495	10,546,688	0.35	0.35
Bank and other borrowings (other than lease liabilities)	32,801,561	30,128,023	3.54	3.89
Fixed rate:				
Cash and cash equivalents	10,441,933	11,612,233	1.10	1.10
Bank and other borrowings (other than lease liabilities)	4,204,957	2,840,069	2.98	3.84
Guaranteed bonds and notes	31,472,403	30,641,242	3.28	3.40

At 31 December 2020, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK\$58 million (2019: HK\$82 million).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the beginning of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis was performed on the same basis for 2019.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China and Germany, the Group's financial position can be affected significantly by movements in the RMB/HK\$ exchange rate.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB/HK\$ and EUR/HK\$ exchange rates, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/(decrease) in profit before tax		Increase/(decrease) in equity	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
If Hong Kong dollar weakens against RMB by 5%	283,466	390,825	4,228,954	3,818,961
If Hong Kong dollar strengthens against RMB by 5%	(283,466)	(390,825)	(4,228,954)	(3,818,961)
If Hong Kong dollar weakens against EUR by 5%	54,438	53,183	27,566	15,297
If Hong Kong dollar strengthens against EUR by 5%	(54,438)	(53,183)	(27,566)	(15,297)

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

Credit risk

The Group is exposed to credit risk arising from its piped gas operation, brewery operation and solid waste treatment operation. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on individual customer's past history of making payments when they fall due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Various companies have different credit policies, depending on markets and businesses in which they operate. Ageing analysis of trade receivables is prepared and closely monitored in order to minimise any credit risk associated with the receivables. Normally, the Group does not obtain collateral from customers. In respect of the amounts due from contract customers for contract work arising from the Group's solid waste treatment operation, the Group transacts mainly with municipal governments in different provinces in the PRC which do not have significant credit risk.

Maximum exposure and year-end staging

At 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables*	–	–	–	7,040,022	7,040,022
Financial assets included in prepayments, other receivables and other assets					
– Normal**	4,166,708	–	–	–	4,166,708
– Doubtful**	–	93,333	–	–	93,333
Receivables under service concession arrangements					
– Normal	3,077,283	–	–	–	3,077,283
Receivable under a finance lease					
– Normal	800,878	–	–	–	800,878
Restricted cash and pledged deposits					
– Not yet past due	36,879	–	–	–	36,879
Cash and cash equivalents					
– Not yet past due	29,122,428	–	–	–	29,122,428
	37,204,176	93,333	–	7,040,022	44,337,531

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

Credit risk *(Continued)*

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

At 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	Total HK\$'000
Trade receivables*	–	–	–	6,221,099	6,221,099
Financial assets included in prepayments, other receivables and other assets					
– Normal**	3,495,789	–	–	–	3,495,789
– Doubtful**	–	88,090	–	–	88,090
Receivables under service concession arrangements					
– Normal	2,477,807	–	–	–	2,477,807
Receivable under a finance lease					
– Normal	823,003	–	–	–	823,003
Restricted cash and pledged deposits					
– Not yet past due	36,701	–	–	–	36,701
Cash and cash equivalents					
– Not yet past due	22,158,921	–	–	–	22,158,921
	28,992,221	88,090	–	6,221,099	35,301,410

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 26 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets are considered as “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered as “doubtful”.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of bank loans, other loans, guaranteed bonds and notes. In addition, banking facilities have been put in place for contingency purposes.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of short term loans to cover expected cash demands, subject to approval by the management of the Group. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The maturity profile of the Group's financial liabilities (other than defined benefit obligations) as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

At 31 December 2020

	On demand or within one year <i>HK\$'000</i>	In the second year <i>HK\$'000</i>	In the third to fifth years, inclusive <i>HK\$'000</i>	Beyond five years <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade and bills payables	4,700,433	–	–	–	4,700,433
Accruals and other liabilities	19,931,644	179,863	–	–	20,111,507
Due to holding companies	2,620,480	–	–	–	2,620,480
Due to related parties	841,457	–	–	–	841,457
Bank and other borrowings (excluding lease liabilities)	15,902,870	8,297,368	11,950,867	3,983,621	40,134,726
Guaranteed bonds and notes	5,570,221	10,687,390	13,376,453	8,873,363	38,507,427
Lease liabilities	242,435	196,165	213,214	459,296	1,111,110
	49,809,540	19,360,786	25,540,534	13,316,280	108,027,140

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

Liquidity risk *(Continued)*

At 31 December 2019

	On demand or within one year <i>HK\$'000</i>	In the second year <i>HK\$'000</i>	In the third to fifth years, inclusive <i>HK\$'000</i>	Beyond five years <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade and bills payables	4,508,343	–	–	–	4,508,343
Accruals and other liabilities	17,053,044	171,710	–	–	17,224,754
Due to holding companies	2,386,965	–	–	–	2,386,965
Due to related parties	734,242	–	–	–	734,242
Bank and other borrowings	7,626,464	11,104,087	13,667,145	3,518,194	35,915,890
Guaranteed bonds and notes	5,391,391	5,520,903	18,431,841	9,195,550	38,539,685
Lease liabilities	243,434	201,988	280,505	453,108	1,179,035
	37,943,883	16,998,688	32,379,491	13,166,852	100,488,914

Fair value risk

The Group is exposed to fair value risk, mainly arising from its listed equity investments and unlisted fund investment. The fair values of the equity investments and unlisted fund at the end of the reporting period are determined based on quoted market prices and a valuation performed by an independent professional valuer, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the fair value of these investments, with all other variables held constant, of the Group's profit before tax and equity attributable to shareholders of the Company:

	Increase/(decrease) in profit before tax		Increase/(decrease) in equity	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
If fair values increased by 5%	131,909	113,262	217,026	211,403
If fair values decreased by 5%	(131,909)	(113,262)	(217,026)	(211,403)

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

Fair value risk *(Continued)*

In addition, the market value of the Group's investment in an investee, which is accounted for using the equity method of accounting, was lower than its then carrying amount. Accordingly, the Group carried out an impairment testing to determine whether the investment in the investee is impaired. The recoverable amount of the investment is determined at the higher of the value in use and the fair value less costs of disposal. The value in use of the investment in the investee is determined with reference to a financial forecast approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually, and its fair value less costs to sell is determined based on the quoted market price of the investee. Based on the result of the impairment testing, in the opinion of the directors, an impairment loss is recognised in profit or loss for the year ended 31 December 2019 against the Group's investment in the investee.

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

Depending on the market conditions and funding arrangements, if at any time, repurchase of the Company's shares will lead to an enhancement of the net asset value per share and/or earnings per share of the Group, the directors will authorise such transactions, when appropriate.

The Group monitors capital using a net gearing ratio, which is net borrowing divided by the total equity. Net borrowing includes total bank and other borrowings, guaranteed bonds and notes less cash and bank balances (including restricted cash and pledged deposits). The net gearing ratio as at the end of the reporting period is as follows:

	2020 HK\$'000	2019 HK\$'000
Bank and other borrowings	37,168,621	33,126,251
Guaranteed bonds and notes	31,472,403	30,641,242
Less: Cash and bank balances	(29,159,307)	(22,195,622)
Net borrowing	39,481,717	41,571,871
Total equity	97,425,722	87,014,827
Gearing ratio	40.5%	47.8%

NOTES TO FINANCIAL STATEMENTS

31 December 2020

50. EVENT AFTER THE REPORTING PERIOD

Save the announcement of the Incident by Blue Sky, an associate of the Group, on 17 January 2021 and the suspension of trading of its shares on the Hong Kong Stock Exchange since then, as disclosed in note 22(d) to the financial statements, the Group has no significant events subsequent to the reporting period.

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
ASSETS		
Non-current assets:		
Property, plant and equipment	1,347	2,118
Investment properties	56,914	56,914
Right-of-use assets	30,503	47,196
Investments in subsidiaries	75,450,286	72,860,922
Investments in associates	347,956	121,013
Equity investments at fair value through other comprehensive income	2,415,720	1,256,081
Total non-current assets	78,302,726	74,344,244
Current assets:		
Prepayments, other receivables and other assets	106,810	301,659
Cash and cash equivalents	115,305	112,006
Total current assets	222,115	413,665
TOTAL ASSETS	78,524,841	74,757,909

NOTES TO FINANCIAL STATEMENTS

31 December 2020

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
EQUITY AND LIABILITIES		
Equity:		
Share capital	30,401,883	30,401,883
Reserves <i>(note)</i>	2,101,566	941,927
TOTAL EQUITY	32,503,449	31,343,810
Non-current liabilities:		
Bank and other borrowings	7,934,688	12,784,292
Lease liabilities	14,355	31,146
Total non-current liabilities	7,949,043	12,815,438
Current liabilities:		
Other payables and accruals	1,568,978	1,654,192
Due to subsidiaries	24,413,184	23,168,136
Income tax payable	85,372	85,372
Bank and other borrowings	11,988,024	5,674,767
Lease liabilities	16,791	16,194
Total current liabilities	38,072,349	30,598,661
TOTAL LIABILITIES	46,021,392	43,414,099
TOTAL EQUITY AND LIABILITIES	78,524,841	74,757,909

Li Yongcheng
Director

Tam Chun Fai
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2020

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

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

	<i>Note</i>	Capital reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019		13,220	(22,773)	17,561	1,015,126	1,023,134
Profit for the year and total comprehensive income for the year		–	–	–	1,344,913	1,344,913
Final 2018 dividend		–	–	–	(921,299)	(921,299)
Interim 2019 dividend	12	–	–	–	(504,821)	(504,821)
At 31 December 2019 and 1 January 2020		13,220	(22,773)	17,561	933,919	941,927
Profit for the year		–	–	–	1,438,740	1,438,740
Other comprehensive income for the year:						
Changes in fair value of equity investments at fair value through other comprehensive income		–	1,159,639	–	–	1,159,639
Total comprehensive income for the year		–	1,159,639	–	1,438,740	2,598,379
Final 2019 dividend	12	–	–	–	(933,919)	(933,919)
Interim 2020 dividend	12	–	–	–	(504,821)	(504,821)
At 31 December 2020		13,220	1,136,866	17,561	933,919	2,101,566

52. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2021.

FIVE YEAR FINANCIAL SUMMARY

31 December 2020

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the published audited financial statements and the annual report of the Company for the year ended 31 December 2019, is set out below:

RESULTS

	Year ended 31 December				
	2016	2017	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	55,958,834	57,508,025	67,764,770	67,783,028	68,407,443
Operating profit	2,547,072	2,177,855	2,435,720	2,584,750	1,678,293
Share of profits and losses of:					
Joint ventures	6,623	26,609	(6,715)	28,810	16,565
Associates	4,943,273	5,827,944	6,666,446	6,982,418	4,958,399
Profit before tax	7,496,968	8,032,408	9,095,451	9,595,978	6,653,257
Income tax	(857,723)	(845,131)	(1,158,810)	(1,022,369)	(1,006,794)
Profit for the year	6,639,245	7,187,277	7,936,641	8,573,609	5,646,463
ATTRIBUTABLE TO:					
Shareholders of the Company	6,235,883	6,880,378	7,577,383	8,054,780	5,286,888
Non-controlling interests	403,362	306,899	359,258	518,829	359,575
	6,639,245	7,187,277	7,936,641	8,573,609	5,646,463

FIVE YEAR FINANCIAL SUMMARY

31 December 2020

ASSETS, LIABILITIES AND TOTAL EQUITY

	2016	2017	31 December 2018	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	144,708,761	171,549,018	174,496,280	185,806,276	204,804,421
Total liabilities	(76,669,835)	(92,376,013)	(93,480,908)	(98,791,449)	(107,378,699)
NET ASSETS	68,038,926	79,173,005	81,015,372	87,014,827	97,425,722
Equity attributable to shareholders of the Company	57,321,208	67,568,050	69,672,617	75,281,639	84,897,106
Non-controlling interests	10,717,718	11,604,955	11,342,755	11,733,188	12,528,616
TOTAL EQUITY	68,038,926	79,173,005	81,015,372	87,014,827	97,425,722

GLOSSARY

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

"2021 AGM"	: forthcoming annual general meeting of the Company to be held on 17 June 2021
"AGM(s)"	: annual general meeting(s) of the Company
"Articles of Association"	: the current articles of association of the Company adopted on 11 June 2015
"Audit Committee"	: audit committee of the Company
"BE Clean Energy"	: Beijing Enterprises Clean Energy Group Limited, a company listed on the HKSE (stock code: 1250)
"BE Environment"	: Beijing Enterprises Environment Group Limited, a company listed on the HKSE (stock code: 154)
"BE Group"	: Beijing Enterprises Group Company Limited* (北京控股集團有限公司), a company incorporated in the PRC with limited liability. It is a state-owned enterprise wholly-owned by SASAC of Beijing Municipality and is the ultimate controlling shareholder of the Company
"BE Group BVI"	: Beijing Enterprises Group (BVI) Company Limited
"BE Group Finance"	: Beijing Enterprises Group Finance Co. Ltd.* (北京控股集團財務有限公司)
"BE Urban Resources"	: Beijing Enterprises Urban Resources Group Limited, a company listed on the HKSE (stock code: 3718)
"BE Water"	: Beijing Enterprises Water Group Limited, a company listed on the HKSE (stock code: 371)
"BEHET"	: Beijing Enterprises Holdings Environment Technology Co., Ltd.* (北京北控環保工程技術有限公司)
"Beijing Gas"	: Beijing Gas Group Company Limited
"BEIL"	: Beijing Enterprises Investments Limited

GLOSSARY

“BHL”	: Beijing Holdings Limited
“Biosino Bio-Tech”	: Biosino Bio-Technology and Science Incorporation, a company listed on the HKSE (stock code: 8247)
“Blue Sky”	: Beijing Gas Blue Sky Holdings Limited, a company listed on the HKSE (stock code: 6828)
“Board”	: the board of Directors
“Chief Executive” or “CEO”	: the Chief Executive Officer of the Company
“China Gas”	: China Gas Holdings Limited, a company listed on the HKSE (stock code: 384)
“Company” or “BEHL”	: Beijing Enterprises Holdings Limited, a company listed on the HKSE (stock code: 392)
“Companies Ordinance”	: the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time
“Director(s)”	: the director(s) of the Company
“EEW GmbH”	: EEW Energy from Waste GmbH
“Euro” or “EUR”	: the Euro, the lawful currency of the member states of the European Union
“Executive Director”	: executive director of the Company
“Group”	: The Company and its subsidiaries from time to time
“GSWM”	: Golden State Waste Management Corporation
“HKSE” or “Hong Kong Stock Exchange”	: The Stock Exchange of Hong Kong Limited
“HKFRSs”	: Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HK\$”	: Hong Kong dollars, the lawful currency of Hong Kong

GLOSSARY

“Hong Kong”	: The Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Non-executive Director(s)” or “INED(s)”	: independent non-executive director(s) of the Company
“Investment Committee”	: investment committee of the Company
“Listing Rules”	: the Rules Governing the Listing of Securities on the HKSE
“Model Code”	: the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“MOL”	: Modern Orient Limited
“Nomination Committee”	: nomination committee of the Company
“PetroChina Beijing Pipeline Co.” or “PetroChina Beijing Gas”	: PetroChina Beijing Gas Pipeline Co., Ltd.* (中石油北京天然氣管道有限公司)
“PPP”	: public-private partnership
“PRC” or “China”	: the People’s Republic of China, and for the purpose of this Report, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Remuneration Committee”	: remuneration committee of the Company
“Report”	: this 2020 annual report of the Company
“RMB”	: Renminbi, the lawful currency of the PRC

GLOSSARY

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

* For identification purpose only



北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED