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This announcement is for information purposes only and is not an offer to sell or the solicitation of an offer to buy securities and neither this announcement nor anything herein forms the basis for any contract or commitment whatsoever. This announcement is not an offer of securities for sale in the United States. Neither this announcement nor any copy hereof may be taken into or distributed in the United States. The securities have not been and will not be registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an exemption from registration. There will be no public offer of securities in the United States.

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

Beijing Enterprises Holdings Limited

(incorporated with limited liability in Hong Kong)

(Stock Code: 392)

OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is issued pursuant to Rule 13.10B of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited.

Reference is made to the announcement of Beijing Enterprises Holdings Limited (the "**Company**") dated 13 April 2017 in relation to the issue of the Bonds (the "**Announcement**"). All terms used herein have the same meaning as defined in the Announcement, unless otherwise defined.

The attached offering circular in relation to the Bonds (the "**Offering Circular**") is expected to be uploaded on to the website of the Irish Stock Exchange.

The posting of the Offering Circular on the website of the Hong Kong Exchanges and Clearing Limited is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong in compliance with Rule 13.10B of the Listing Rules, and not for any other purpose.

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

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

By Order of the Board
Beijing Enterprises Holdings Limited
Zhou Si
Vice Chairman

Hong Kong, 21 April 2017

As at the date of this announcement, the board of directors of the Company comprises Mr. Wang Dong (Chairman), Mr. Hou Zibo, Mr. Zhou Si, Mr. Li Fucheng, Mr. Li Yongcheng, Mr. E Meng, Mr. Jiang Xinhao and Mr. Tam Chun Fai as executive directors; and Mr. Wu Jiesi, Mr. Lam Hoi Ham, Mr. Fu Tingmei, Mr. Sze Chi Ching, Dr. Yu Sun Say and Mr. Ma She as independent non-executive directors.

IMPORTANT NOTICE

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

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

Confirmation of Your Representation. You have accessed the attached document on the basis that you have confirmed to Bank of China (Hong Kong) Limited, Deutsche Bank AG, London Branch and UBS AG Hong Kong Branch (the "**Joint Global Coordinators and Joint Bookrunners**") and Agricultural Bank of China Limited Hong Kong Branch, Bank of Communications Co., Ltd. Hong Kong Branch, China Construction Bank (Asia) Corporation Limited, DBS Bank Ltd., Industrial and Commercial Bank of China (Asia) Limited, Industrial and Commercial Bank of China (Europe) S.A. and Wing Lung Bank Limited (the "**Joint Bookrunners**" and together with the Joint Global Coordinators and Joint Bookrunners, the "**Managers**") that: (1) you are not in the United States AND (2) you consent to the delivery of this document by electronic transmission.

This document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of Talent Yield European Limited (the "**Issuer**"), Beijing Enterprises Holdings Limited (the "**Guarantor**" or the "**Company**") or the Managers, nor any of their respective affiliates, accept any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version.

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

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

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

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

OFFERING CIRCULAR

Talent Yield European Limited

(incorporated with limited liability in the British Virgin Islands)

€800,000,000 1.30 per cent. Guaranteed Bonds due 2022

unconditionally and irrevocably guaranteed by

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

Beijing Enterprises Holdings Limited

(incorporated with limited liability in Hong Kong)

Issue Price: 99.966 per cent.

The 1.30 per cent. Guaranteed Bonds due 2022 in the aggregate principal amount of €800,000,000 (the "**Bonds**") will be issued by Talent Yield European Limited (the "**Issuer**") and unconditionally and irrevocably guaranteed (the "**Guarantee**") by Beijing Enterprises Holdings Limited (the "**Guarantor**" or the "**Company**"). The Bonds will be constituted by a trust deed to be dated 21 April 2017 (the "**Trust Deed**") made between the Issuer, the Guarantor and The Bank of New York Mellon, London Branch (the "**Trustee**"). The Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer. The Guarantee constitutes an unconditional and unsecured obligation of the Guarantor and will rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor. The Issuer is a wholly-owned subsidiary of the Guarantor.

The Bonds will be issued within the annual or otherwise general quota granted by the NDRC in The Reply of the NDRC to Pilot Enterprises (Second Batch) regarding Administration and Reform of Enterprise Foreign Debt Scale in 2017 (Fa Gai Wai Zi [2017] No. 560) (《國家發展改革委關於2017年外債規模管理改革試點企業(第二批)的批覆》) (發改外資[2017]560號)) issued by the National Development and Reform Commission of the PRC ("**NDRC**") on 22 March 2017 (the "**NDRC Quota**") granted to Beijing Enterprises Group Company Limited, the controlling entity of the Guarantor, pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (Fa Gai Wai Zi [2015] No. 2044) (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044號)) issued by the NDRC which came into effect on 14 September 2015 and the applicable implementation rules or policies thereof as issued by the NDRC from time to time (the "**NDRC Circular**"). After the issuance of the Bonds, the Guarantor intends to provide the requisite information on the issuance of the Bonds to the NDRC within the time period as prescribed by the NDRC Quota and NDRC Circular.

Interest on the Bonds is payable annually in arrear on 21 April in each year (each an "**Interest Payment Date**"), commencing on 21 April 2018. All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, Hong Kong or the People's Republic of China (the "**PRC**") to the extent described in "Terms and Conditions of the Bonds — Taxation".

Unless previously redeemed, or purchased and cancelled, the Bonds will mature on 21 April 2022 at their principal amount. The Bonds may be redeemed at the option of the Issuer, in whole but not in part, on giving not less than 30 nor more than 60 days' notice, at the Early Redemption Amount (as defined in the Terms and Conditions of the Bonds). See "Terms and Conditions of the Bonds — Redemption and Purchase — Redemption at the Option of the Issuer". The Bonds are subject to redemption, in whole but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time on giving not less than 30 nor more than 60 days' notice in the event of certain changes affecting taxes of the British Virgin Islands, Hong Kong or the PRC. See "Terms and Conditions of the Bonds — Redemption and Purchase — Redemption for Tax Reasons". At any time following the occurrence of a Change of Control Triggering Event (as defined in the Terms and Conditions of the Bonds), the holder of a Bond will have the right, at such holder's option, to require the Issuer to redeem all, or some only, of that holder's Bonds on the Change of Control Put Date (as defined in the Terms and Conditions of the Bonds) at 101 per cent. of their principal amount, together with accrued interest to but excluding such Change of Control Put Date. See "Terms and Conditions of the Bonds — Redemption and Purchase — Redemption for Change of Control Triggering Event".

Investing in the Bonds involves certain risks. See "Risk Factors" beginning on page 9 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

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

Application has been made to the Irish Stock Exchange plc for the approval of this Offering Circular as Listing Particulars ("**Listing Particulars**"). Application has been made to the Irish Stock Exchange for the Bonds to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC. This document constitutes the Listing Particulars in respect of the admission of the Bonds to the Official List and to trading on the Global Exchange Market of the Irish Stock Exchange.

The Bonds will be evidenced by a global certificate (the "**Global Certificate**") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about 21 April 2017 (the "**Issue Date**") with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the Global Certificate.

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

The Bonds will be in the denominations of €100,000 and integral multiples of €1,000 in excess thereof.

Joint Global Coordinators and Joint Bookrunners

Bank of China | **Deutsche Bank** | **UBS**

Joint Bookrunners

Agricultural Bank of China Limited Hong Kong Branch | **BOCOM HK Branch** | **China Construction Bank (Asia)**

DBS Bank Ltd. | **ICBC** | **Wing Lung Bank Limited**

Offering Circular dated 13 April 2017

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IMPORTANT NOTICE

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

The Issuer, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor and its subsidiaries or affiliates (collectively, the "**Group**"), the Bonds and the Guarantee, which is material in the context of the issue and offering of the Bonds, (ii) the statements contained in it relating to the Issuer, the Guarantor and the Group are in every material respect true and accurate and not misleading, (iii) the opinions and intentions expressed in this document with regard to the Issuer, the Guarantor and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) there are no other facts in relation to the Issuer, the Guarantor, the Group, the Bonds or the Guarantee the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect and (v) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements. In addition, each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this Offering Circular.

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this document and, to the best of the knowledge and belief of the Issuer and the Guarantor (which has taken all reasonable care to ensure that such is the case), the information included in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

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

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

In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor, the Group and the terms of the offering, including the merits and risks involved. The Issuer, the Guarantor, the Managers, the Trustee and the Agents are not making any representation to any purchaser of Bonds regarding the legality of any investment in the Bonds by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. See “Risk Factors” for a discussion of certain factors to be considered in connection with an investment in the Bonds.

IN CONNECTION WITH THE OFFERING, THE MANAGERS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS, ENGAGE IN TRANSACTIONS THAT STABILISE OR OTHERWISE AFFECT THE MARKET PRICE OF THE BONDS. THESE TRANSACTIONS CONSIST OF BIDS OR PURCHASES FOR THE PURPOSE OF PEGGING, FIXING OR MAINTAINING THE PRICE OF THE BONDS. IF THE MANAGERS CREATE A SHORT POSITION IN THE BONDS IN CONNECTION WITH THE OFFERING (I.E. IF THE MANAGERS SELL MORE BONDS THAN ARE SET FORTH ON THE COVER PAGE OF THIS OFFERING CIRCULAR), THE MANAGERS MAY REDUCE THAT SHORT POSITION BY PURCHASING BONDS IN THE OPEN MARKET. IN GENERAL, PURCHASES OF A BOND FOR THE PURPOSE OF STABILISATION OR TO REDUCE A SHORT POSITION COULD CAUSE THE PRICE OF THE BONDS TO BE HIGHER THAN IT MIGHT BE IN THE ABSENCE OF SUCH PURCHASES. THERE IS NO ASSURANCE, HOWEVER, THAT THE MANAGERS WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers, the Trustee or the Agents or any person affiliated with the Managers, the Trustee or the Agents in connection with its investigation of the accuracy of such information or its investment decision.

The Guarantor’s audited consolidated financial statements as at and for the years ended 31 December 2015 and 2016 have been audited by Ernst and Young in accordance with Hong Kong Standard in Auditing, see “Summary Financial Information”. These financial statements were prepared in conformity with HKFRS. Unless otherwise stated, all financial data contained herein which is stated as relating to the Guarantor are referring to the consolidated data of the Group.

References to “PRC” and “China,” for the statistical purposes of this Offering Circular, except where the context otherwise requires, do not include Hong Kong, Macau Special Administrative Region of the PRC (“**Macau**”) or Taiwan. “PRC government” means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governments) and instrumentalities thereof, or, where the context requires, any of them.

Unless otherwise specified or the context requires, references herein to “Hong Kong dollars”, “HK dollars”, “HK$” and “HK¢” are to the lawful currency of the Hong Kong Special Administrative Region (“**Hong Kong**”), references herein to “U.S. dollars” or “US$” are to the lawful currency of the United States of America, references herein to “Renminbi” or “RMB” are to the lawful currency of the People’s Republic of China (the “**PRC**” or “**China**”), references herein to “EUR”, “euro” or “ €” are to the currency introduced at the start of third stage of the European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended and references to “HKFRS” are to Hong Kong Financial Reporting Standards.

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

This Offering Circular contains translations of certain HK$ amounts into U.S. dollars at specified rates solely for the convenience of the readers. Unless otherwise specified in this Offering Circular, where financial information in relation to the Guarantor has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of HK$7.7534 to US$1.00 (the noon buying rate in New York City on 30 December 2016 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System). Further information regarding exchange rate is set forth in Exchange Rate Information in this Offering Circular. No representation is made that the HK$ amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at any particular rate or at all.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

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

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

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

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

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

SUMMARY

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

Overview

The Guarantor is a conglomerate backed by the Beijing Municipal Government, its major shareholder, which has focused on managing strategic infrastructure, public utilities and other investments since its listing on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") on 19 May 1997. The Guarantor's broad portfolio of assets includes natural gas distribution and transmission assets, brewery operations, sewage and water treatment facilities, solid waste treatment facilities and other investments. Leveraging these assets, the Guarantor seeks to achieve consistent financial performance and to attract international investment to develop further Beijing's municipal infrastructure and its other businesses. The Guarantor's diversified portfolio of businesses includes Beijing Gas Group Company Limited ("**Beijing Gas**"), China Gas Holding Limited ("**China Gas**"), Beijing Yanjing Brewery Co. Limited ("**Yanjing Brewery**"), Beijing Enterprises Water Group Limited ("**Beijing Water**") and Beijing Enterprises Environment Group Limited (formerly known as Beijing Development (Hong Kong) Limited ("**Beijing Environment**"), each with a leading market position and stable cash flows, enabling the Guarantor to manage volatility across the various business segments, thereby positioning the Guarantor to capture growth opportunities in Beijing and throughout the PRC.

Beijing Gas, in which the Guarantor has a 100.0 per cent. interest, ranks as one of the largest city natural gas suppliers in the PRC with pipelines in operation in Beijing of approximately 17,430 kilometres and approximately 5.43 million natural gas users as at 31 December 2016. With over five decades of fuel gas management experience and expertise, Beijing Gas' natural gas distribution network supplies natural gas to residential, industrial and power generation users in the Greater Beijing city area. Consistent with the PRC government's objective to reduce coal-fired power generation in the Greater Beijing city area, the Guarantor expects such growth opportunities to help maintain and expand the Guarantor's leading position through coal-to-gas power plant conversions and increased promotion of natural gas as a cleaner alternative to other power generation fuels. China Gas, in which the Guarantor has a 24.91 per cent. interest, is a gas operator and service provider primarily engaged in the investment in and construction and operation of city gas pipeline infrastructure facilities, gas terminals, storage and transportation facilities, gas logistics systems, transmission of natural gas and liquefied petroleum gas ("**LPG**") to residential, industrial and commercial customers, construction and operation of natural gas refilling stations for vehicles as well as the development and application of technologies relating to petroleum, natural gas and LPG in China.

Yanjing Brewery, in which the Guarantor has a 45.79 per cent. effective interest, operates one of the largest breweries in the PRC with a diversified brand and product portfolio, a leading market position in Beijing and strong national reputation. Yanjing Brewery produces a wide variety of products designed to appeal to different consumer groups and covering different price points. Through its wide-reaching local production centres, it distributes beer and other beverage products to most parts of the PRC using a three-tier distribution network of distributors, wholesalers and retailers.

Beijing Water, in which the Guarantor has a 43.76 per cent. interest, principally operates water treatment and water distribution projects in 19 provinces, four autonomous regions and two municipalities across the PRC as well as in Singapore, Malaysia and Portugal. Extensive PRC government policy directives intended to ensure a safe and reliable water distribution throughout the PRC have resulted in opportunities to bundle sewage and water treatment projects, thereby enabling Beijing Water to leverage its design, construction and operations expertise for provincial governments nationally. Beijing Water has developed an integrated business model with design and technical consultancy, construction, ownership and operational capabilities for sewage and water treatment projects. Beijing Water's extensive project capabilities enable it to capture the entire value chain from project concept and design stages through construction and operation.

Beijing Environment (formerly known as Beijing Development (Hong Kong) Limited), in which the Guarantor has a 50.40 per cent. interest, is primarily engaged in environmental protection and solid waste treatment business in China. The Guarantor recorded revenue of HK$47,935.8 million, HK$60,149.9 million and HK$55,958.8 million for 2014, 2015 and 2016, respectively. The Group had total assets of HK$124,063.9 million, HK$124,766.0 million and HK$144,942.9 million as at 31 December 2014, 2015 and 2016, respectively.

Competitive Strengths

The Guarantor believes its competitive strengths include:

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

Business Strategy

The Guarantor's strategies include:

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

THE OFFERING

The following summary contains some basic information about the Bonds and the Guarantee and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Bonds" and "Summary of Provisions Relating to the Bonds in Global Form" shall have the same meanings in this summary. For a more complete description of the terms of the Bonds, see "Terms and Conditions of the Bonds" in this Offering Circular.

Issuer	Talent Yield European Limited, a limited liability company incorporated in the British Virgin Islands.
Guarantor	Beijing Enterprises Holdings Limited, a limited liability company incorporated in Hong Kong.
Issue	€800,000,000 aggregate principal amount of 1.30 per cent. Guaranteed Bonds due 2022.
Issue Price	99.966 per cent.
Form and Denomination	The Bonds will be issued in registered form in the denominations of €100,000 and integral multiples of €1,000 in excess thereof.
Interest	The Bonds will bear interest from and including the Issue Date at the rate of 1.30 per cent. per annum, payable annually in arrear on 21 April in each year, commencing 21 April 2018.
Issue Date	21 April 2017.
Maturity Date	21 April 2022.
Status	The Bonds will constitute direct, unsubordinated, unconditional and (subject to Condition 4(a) (Negative Pledge) of the Terms and Conditions of the Bonds), unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (Negative Pledge) of the Terms and Conditions of the Bonds, at all times rank at least equally with all the Issuer's other present and future unsecured and unsubordinated obligations.
Guarantee	The Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. The Guarantor's obligations in respect of the Bonds and the Trust Deed (the "**Guarantee**") are contained in the Trust Deed (and any supplement thereto).
Rating	The Bonds are expected to be rated "Baa1" by Moody's and "BBB+" by S&P. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Covenant	The Bonds will contain certain covenants including a negative pledge provision as further described in Condition 4(a) (Negative Pledge), Condition 4(b) (Other Covenants), Condition 4(c) (Financial Statements) and Condition 4(d) (Notification to NDRC) of the Terms and Conditions of the Bonds.
Events of Default	Upon the occurrence and continuation of certain events as described in Condition 9 (Events of Default) of the Terms and Conditions of the Bonds, the Trustee at its discretion may, and if so requested by the holders of at least 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (provided in any such case that the Trustee shall have been first indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest.
Taxation	All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, Hong Kong or the PRC or any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law, as further described in Condition 8 of the Terms and Conditions of the Bonds.
Final Redemption	Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date.
Redemption for Tax Reasons	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time upon giving not less than 30 nor more than 60 days' notice to the holders of the Bonds (which notice shall be irrevocable), as further described in Condition 6(b) (Redemption for Tax Reasons) of the Terms and Conditions of the Bonds.
Redemption for Change of Control Triggering Event	At any time following the occurrence of a Change of Control Triggering Event, the holder of each Bond will have the right, at such holder's option, to require the Issuer to redeem all, or some only, of such holder's Bonds, as further described in Condition 6(c) (Redemption for Change of Control Triggering Event) of the Terms and Conditions of the Bonds.
Optional Redemption	The Issuer may, at any time upon giving not less than 30 nor more than 60 days' notice to the holders of the Bonds and the Trustee (which notice shall be irrevocable), redeem the Bonds, in whole but not in part, at the Early Redemption Amount, as further described in Condition 6(d) (Redemption at the Option of the Issuer) of the Terms and Conditions of the Bonds.

Clearing Systems	The Bonds will be evidenced by the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with, a common depositary for, Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in this Offering Circular, certificates for the Bonds will not be issued in exchange for beneficial interests in the Global Certificate. The Common Code and ISIN for the Bonds are 160041048 and XS1600410481, respectively.
Listing	Application has been made to the Irish Stock Exchange plc for the approval of this Offering Circular as Listing Particulars. Application has been made to the Irish Stock Exchange for the Bonds to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC.
Governing Law	English law.
Trustee	The Bank of New York Mellon, London Branch.
Principal Paying Agent	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Further Issues	The Issuer may from time to time, without the consent of the Bondholders, create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated, as further described in Condition 15 of the Terms and Conditions of the Bonds.
Use of Proceeds	See "Use of Proceeds".
Selling Restrictions	The Bonds and the Guarantee will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "Subscription and Sale".

SUMMARY FINANCIAL INFORMATION

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

The summary consolidated financial information of the Guarantor as at and for the years ended 31 December 2014, 2015 and 2016 set forth below is derived from and should be read in conjunction with the Guarantor's consolidated financial statements as at and for the years ended 31 December 2015 and 2016 including the notes thereto, which have been audited by Ernst & Young, and included elsewhere in this Offering Circular.

The consolidated financial statements of the Guarantor are prepared in accordance with HKFRS.

Consolidated Statement of Profit or Loss

	For the year ended 31 December			
	2014	**2015**	**2016**	**2016**
	HK$'000	**HK$'000**	**HK$'000**	**US$'000**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**
REVENUE	47,935,795	60,149,945	55,958,834	7,217,328
Cost of sales	(39,359,764)	(51,098,897)	(46,523,010)	(6,000,337)
Gross profit	8,576,031	9,051,048	9,435,824	1,216,991
Gain on deemed disposal of partial interest in an associate	378,843	2,390	4,387	566
Other income and gains, net	862,480	1,464,170	1,623,890	209,442
Selling and distribution expenses	(2,595,985)	(2,575,564)	(2,418,684)	(311,951)
Administrative expenses	(3,407,908)	(3,936,272)	(4,225,780)	(545,023)
Other operating expenses, net	(482,408)	(773,964)	(380,230)	(49,040)
PROFIT FROM OPERATING ACTIVITIES	3,331,053	3,231,808	4,039,407	520,985
Finance costs	(1,172,491)	(1,301,863)	(1,492,335)	(192,475)
Share of profits and losses of:				
Joint ventures	4,827	(183)	6,623	854
Associates	3,807,092	4,708,112	4,943,273	637,562
PROFIT BEFORE TAX	5,970,481	6,637,874	7,496,968	966,926
Income tax	(564,834)	(681,961)	(857,723)	(110,625)
PROFIT FOR THE YEAR	5,405,647	5,955,913	6,639,245	856,301
ATTRIBUTABLE TO:				
Shareholders of the Guarantor	4,831,678	5,667,378	6,235,883	804,277
Non-controlling interests	573,969	288,535	403,362	52,024
	5,405,647	5,955,913	6,639,245	856,301
EARNINGS PER SHARE				
ATTRIBUTABLE TO SHAREHOLDERS OF THE GUARANTOR				
Basic	HK$3.78	HK$4.41	HK$4.92	US$0.63
Diluted	HK$3.77	HK$4.41	HK$4.92	US$0.63

Consolidated Statement of Financial Position

	As at 31 December			
	2014	2015	2016	2016
	HK$'000 (audited)	HK$'000 (audited)	HK$'000 (audited)	US$'000 (unaudited)
ASSETS				
Non-current assets:				
Property, plant and equipment	39,320,530	37,735,621	43,427,899	5,601,143
Investment properties	703,749	1,194,258	1,133,290	146,167
Prepaid land premiums	1,959,240	1,888,032	1,529,906	197,321
Goodwill(1)	8,899,765	8,927,959	15,772,276	2,034,240
Operating concessions(1)	2,259,127	2,250,526	2,666,050	343,856
Other intangible assets	236,978	282,844	3,355,963	432,838
Investments in joint ventures	230,722	192,651	345,942	44,618
Investments in associates.	33,275,203	31,599,399	32,771,154	4,226,681
Available-for-sale investments	1,084,098	1,012,557	3,171,535	409,050
Amounts due from contract customers	316,733	388,771	9,943	1,282
Receivables under service concession arrangements	1,020,254	1,655,090	1,598,429	206,158
Receivables under finance lease	—	—	848,684	109,460
Prepayments, deposits and other receivables	1,165,546	3,220,569	2,941,380	379,366
Debt component of convertible bond receivables	—	—	83,107	10,719
Derivative component of convertible bond receivables	—	—	40,376	5,208
Deferred tax assets	678,460	779,713	1,176,529	151,744
Total non-current assets	91,150,405	91,127,990	110,872,463	14,299,851
Current assets				
Prepaid land premiums	44,860	45,222	36,371	4,691
Inventories	5,393,368	4,644,199	4,952,949	638,810
Receivables under finance lease	—	—	135,477	17,473
Amounts due from contract Customers	39,895	39,623	23,335	3,009
Receivables under service concession arrangements	140,425	135,675	70,673	9,115
Trade and bills receivables	5,320,835	3,544,455	3,677,157	474,264
Prepayments, deposits and other receivables	6,131,039	3,835,300	4,781,741	616,728
Other taxes recoverable	2,232,099	1,336,880	560,011	72,228
Restricted cash and pledged deposits	58,735	73,003	56,547	7,293
Cash and cash equivalents	11,207,706	13,693,804	15,971,552	2,059,942
	30,568,962	27,348,161	30,265,813	3,903,553
Assets of disposal groups classified as held for sale	2,454,449	6,289,889	3,570,485	460,506
Total current assets	33,023,411	33,638,050	33,836,298	4,364,059
TOTAL ASSETS	124,173,816	124,766,040	144,708,761	18,663,910

	As at 31 December			
	2014	2015	2016	2016
	HK$'000 (audited)	HK$'000 (audited)	HK$'000 (audited)	US$'000 (unaudited)
EQUITY AND LIABILITIES				
Equity attributable to shareholders of the Guarantor				
Share capital	30,401,883	30,401,883	30,401,883	3,921,103
Reserves(1)	26,774,473	27,785,384	26,919,325	3,471,938
	57,176,356	58,187,267	57,321,208	7,393,041
Non-controlling interests(1)	10,919,624	10,464,903	10,717,718	1,382,325
TOTAL EQUITY	68,095,980	68,652,170	68,038,926	8,775,366
Non-current liabilities:				
Bank and other borrowings	5,559,874	8,263,049	12,876,585	1,660,766
Guaranteed bonds and senior notes	13,879,298	19,444,592	19,333,950	2,493,609
Defined benefit plans	672,659	827,960	1,633,945	210,739
Provision for onerous contracts and major overhauls	30,544	28,363	461,103	59,471
Other non-current liabilities	433,447	761,946	1,022,636	131,895
Deferred tax liabilities(1)	384,350	480,481	2,081,420	268,453
Total non-current liabilities	20,960,172	29,806,391	37,409,639	4,824,933
Current Liabilities:				
Trade and bills payables	2,238,403	3,640,954	3,929,197	506,771
Amounts due to contract customers	377,784	329,589	322,684	41,618
Receipts in advance	5,843,713	5,366,453	5,566,252	717,911
Other payables and accruals	7,656,455	8,256,953	9,500,657	1,225,354
Provision for onerous contracts	—	—	46,235	5,963
Income tax payables	342,499	494,147	908,600	117,187
Other taxes payable	266,372	198,802	250,267	32,278
Liability component of convertible bonds	84,556	—	—	—
Derivative component of convertible bonds	7,639	—	—	—
Bank and other borrowings	17,691,435	7,047,965	18,418,558	2,375,546
	34,508,856	25,334,863	38,942,450	5,022,628
Liabilities directly associated with the assets of disposal groups classified as held for sale	608,808	972,616	317,746	40,983
Total current liabilities	35,117,664	26,307,479	39,260,196	5,063,611
TOTAL LIABILITIES	56,077,836	56,113,870	76,669,835	9,888,544
TOTAL EQUITY AND LIABILITIES	124,173,816	124,766,040	144,708,761	18,663,910

Note:

(1) The Guarantor's consolidated financial information as at 31 December 2014 included in the audited consolidated financial statements of the Guarantor as at and for the year ended 31 December 2015 ("**2015 Audited Financial Statements**") has been adjusted to reflect certain adjustments in the Guarantor's consolidated financial statements as at 31 December 2014 (the "**Relevant Adjustments**"). See Note 54 (Comparative Amounts) to the 2015 Audited Financial Statements starting on page F-276 for more details on the Relevant Adjustments. Potential investors must exercise caution when using the Guarantor's historical financial information to evaluate the financial condition and results of operations of the Group. See "*Risk Factors — Risks Relating to the Group — The Group's historical financial information is not directly comparable*".

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

Risks relating to the Group

The performance of the Group's businesses depends on future economic growth in the PRC, particularly Beijing

The growth of the Group's businesses depends significantly upon the continuation of economic development and growth in the PRC, which will increase demand for infrastructure and utilities-related services. The PRC has experienced rapid economic development in recent years, but no assurance can be given that such growth will continue at such rates either in the PRC generally or in the particular areas in which the Group's operations and investments are located (particularly in Beijing). A sustained period of slower growth in the PRC could have a material adverse effect on the Group's financial condition and results of operations as well as on its prospects.

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

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

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

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

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

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

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

Growth by acquisition involves inherent risks. These risks include potential undisclosed debt and liabilities pertaining to the acquired companies and difficulties in integrating the operations and personnel of acquired companies, diversion of management attention from the operation of existing businesses and potential loss of key personnel and customers of acquired companies. No assurance can be given that the Group will be able to identify suitable acquisition opportunities, complete such acquisitions on satisfactory terms or, if any acquisitions are consummated, satisfactorily integrate the acquired business.

Many of the Group's properties are subject to usage for special purposes and restrictions on transfer

A substantial portion of the land that the Group uses for its business, particularly properties related to the natural gas distribution and transmission business are used pursuant to land use arrangements entered into with local or provincial PRC government. Pursuant to such arrangements, the Group obtained the land use rights through allocation and authorisation from the local government without paying land premium to the land authorities. Such arrangements are not formalised in all cases, and limit the Group's usage of the property to the specific purpose for which the original use has been granted. Under PRC laws and regulations, approvals from, and payment of land premium to, the relevant land authorities are necessary for any transfer, lease, sale and disposal of such allocated or authorised land or the buildings attached thereto. In addition, according to the concession agreements in respect of the Group's waste-to-energy ("**WTE**") projects with the local governments, the land use rights owned by the Group's project companies which operate the WTE projects may not transfer their land use right during the period of the concession rights. With respect to the Group's projects built on a build-operate-transfer ("**BOT**") basis, the land use rights and other assets shall be returned to the local governments upon the expiry of the concession rights.

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

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

The Group's joint venture partners may:

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

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

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

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

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

In February 2016, the Guarantor successfully completed the acquisition of 100.0 per cent. equity interest of EEW Energy from Waste GmbH ("**EEW**"), the largest waste incineration power enterprise in Germany. On 7 November 2016, Beijing Gas, a wholly-owned subsidiary of the Guarantor, entered into an agreement to acquire approximately 20 per cent. of the share capital of Verkhnechonskneftegaz, a public joint-stock company holding a licence to develop the Verkhnechonsk oil, gas and condensate field in the Russian Federation. The Group will selectively pursue suitable opportunities in overseas markets from time to time and strategically expand its overseas business. Such overseas business may be affected by the changes in, and the instability of, international economic and political conditions as well as the regional conditions of the jurisdictions where it operates. The political and economic conditions in such regions are often subject to instability. As a result of the Group's overseas operation, it is exposed to the risks associated with expanding and conducting business in foreign countries and regions, including but not limited to:

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

- changes in foreign currency controls and foreign exchange policy;

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

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

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

- possible unfavourable labour conditions or employee strikes;

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

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

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

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

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

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

On 7 November 2016, Beijing Gas entered into an agreement with Rosneft Oil Company ("**Rosneft**") to acquire approximately 20 per cent. of the share capital of Verkhnechonskneftegaz, a public joint-stock company holding a license to develop the Verkhnechonsk oil, gas and condensate field in the Russian Federation (the "**Rosneft Oil Acquisition**"). As at the date of the Offering Circular, the Rosneft Oil Acquisition is not completed and the completion is subject to certain conditions precedent including regulatory and government approvals. Upon completion of the Rosneft Oil Acquisition, the parties may explore the possibility of further cooperation, including the supply of gas by Rosneft and/or Verkhnechonskneftegaz to the PRC through the Group. For further details, please refer to "*The Group — Business Segments — Natural Gas Distribution Business — Recent acquisitions of natural gas business*". No proceeds from the subscription of the Bonds will be used in any way in connection with the Rosneft Oil Acquisition or the operation of, or any capital contributions into, Verkhnechonskneftegaz, or the possible supply of the gas by Rosneft and/or Verkhnechonskneftegaz to the Group.

Rosneft has been identified by the US Department of the Treasury's Office of Foreign Assets Control ("**OFAC**") as a sanctioned party, specifically a Sectoral Sanctions Identification ("**SSI**"). SSIs are subject to limited US sanctions. As a subsidiary of Rosneft, Verkhnechonskneftegaz is also a SSI. The SSI sanctions generally prohibit US Persons (i.e., entities organised under the laws of a US jurisdiction, US citizens, US permanent residents, and entities and individuals located in the United States) from engaging in transactions with Rosneft and its subsidiaries that involve (i) new debt with a maturity of over 90 days (including extensions of credit with that maturity); or (ii) certain oil exploration projects in the Arctic offshore, deepwater, or shale projects with potential for oil production in Russia or its maritime areas. The interpretation or implementation of government policy at the US federal, state or local levels with respect to any current or future activities by the Group or its affiliates with Rosneft and/or Verkhnechonskneftegaz is difficult to predict. The uncertainties surrounding the application of the US sanctions and the uncertainties surrounding the political and business environment in Russia or business activities with Rosneft and/or Verkhnechonskneftegaz may limit the Group's ability to obtain funding for the Rosneft Oil Acquisition or future projects with Rosneft and/or Verkhnechonskneftegaz.

As at the date of this Offering Circular, the Group has not made any investment in Verkhnechonskneftegaz and it has not made any contribution to the assets, revenues and net profit of the Group. Such investments into Verkhnechonskneftegaz, if they were to proceed, may contribute to the assets, revenues and net profit of the Group in the future and may cause some potential investors to decide not to invest in the Bonds, because of the US sanctions or the political uncertainty associated with Russia or the business risks of Rosneft and/or Verkhnechonskneftegaz. Furthermore, there is no assurance that the Group can always comply with the US sanctions, though the Group is not a US Person required to comply with them by virtue of its place of incorporation, its ownership, or the location of its operations. Any investigations of or penalties on the Group by reason of its investment in Verkhnechonskneftegaz, or even any publicity attendant to that investment, may materially and adversely affect the Group's business, financial condition and results of operations. In addition, such developments may also result in negative media or investor attention, which may distract management, affect investors' perception of the Group and ultimately have an adverse effect on the investment in the Bonds.

Increasing competition may adversely affect the Group's profitability

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

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

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

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

The Group's infrastructure and utilities businesses are reliant on concessions and franchises

The Group operates and manages its natural gas, sewage and water treatment and solid waste treatment projects in the PRC under concessions, franchises and key contracts. Furthermore, such projects are subject to regulatory controls. Cancellation of any such concessions, franchises or key contracts, or imposition of restrictive regulatory controls, may have a material adverse effect on the financial condition and results of operations of such projects.

The Group's historical financial information is not directly comparable

The Group's historical financial information is sometimes adjusted or restated to address subsequent changes in accounting standards, the Group's accounting policies and/or applicable laws and regulations with retrospective impact on the Group's financial reporting or to reflect the comments provided by the Group's independent auditors during the course of their audit or review in subsequent financial periods. Such adjustment or restatement may cause discrepancies between the financial information with respect to a particular period or date contained in the Group's historical financial statements and that contained in its future financial statements.

The Group's consolidated financial information as at 31 December 2014 included in its 2015 Audited Financial Statements has been adjusted to reflect the Relevant Adjustments. See Note 54 (Comparative Amounts) to the 2015 Audited Financial Statements starting on page F-276. Potential investors must exercise caution when using the Group's historical financial information to evaluate the financial condition and results of operations of the Group.

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

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

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

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

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

The Group may be involved from time to time in material disputes with various parties involved in its operation, including contractors, suppliers, partners and purchasers. These disputes may lead to protests, legal or other proceedings and may result in damage to the Group's reputation, substantial costs and diversion of resources and management's attention.

For example, in June 2016, Shaanxi Huaneng Electricity Construction Co., Ltd. filed a lawsuit against Shaanxi Wanquan Xianyang Environmental Electricity Co., Ltd. ("**Shaanxi Wanquan**"), one of the Group's subsidiaries, alleging that construction service fees payable by Shaanxi Wanquan in the amount of RMB15.6 million had fallen overdue. In June 2016, a lawsuit was filed against Shaanxi Wanquan by its minority shareholder, requiring the payment of debt by Shaanxi Wanquan in the amount of approximately RMB93.34 million. In September 2016, Shaanxi Wanquan filed a lawsuit against its minority shareholder and Northwest Shihua Equipment Co., Ltd. ("**Northwest Shihua**"), alleging that the entrustment agreement entered into between itself and Northwest Shihua was invalid and requiring that an agency fee of RMB12 million be repaid by Northwest Shihua. In February 2017, Shaanxi Wanquan filed a lawsuit against its minority shareholder, alleging that its minority shareholder illegally withdrawn its capital investment in Shaanxi Wanquan in the amount of RMB47.8 million and requiring the repayment of such amount.

The aforementioned cases are currently pending in the relevant courts and may have a material adverse effect on Shaanxi Wanquan if decided adversely against Shaanxi Wanquan. The Group may experience similar disputes in the future, and the outcome of such disputes, collectively or individually, may have a material adverse effect on the Group's business, financial condition and results of operations or have a negative impact on the Group's reputation.

In addition, the Group may have disagreements with regulatory bodies or encounter with additional compliance issues in the course of its operations, which may subject the Group to administrative proceedings and unfavourable decrees which may lead it to administrative proceedings and unfavourable results.

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

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

The regulations for the adoption and issuance of wastes and pollutants discharge permit used to vary among different provinces. According to the Implementation Scheme for the Permits System of Controlling Emission of Pollutant (《控制污染物排放許可制實施方案》), which was promulgated by the General Office of the State Council on 11 November 2016 and the Interim Provisions of the

Administration of Pollutant Discharge Permits (《排污許可證管理暫行規定》) promulgated by the PRC Ministry of Environmental Protection on 23 December 2016, the PRC government has taken measures to establish a discharge permit system of wastes and pollutants, and entities (1) emitting industrial waste gas or other poisonous or hazardous air pollutants; (2) operating gas central heating infrastructures; (3) draining the industrial waste water or medical sewage directly or indirectly to the mass of water; and (4) operating the water treatment facilities of household and industrial waste water, or other polluters whose discharge are regarded as necessary to be controlled under laws and regulations shall obtain a pollutant discharge permit. Polluters are banned to discharge pollutants without such permit or beyond the scope of such permit. Entities that could pose a potential risk to the environment are required to obtain a pollutant discharge permit before the actual operation of its newly established projects. The discharge of pollutants without permits or beyond the scope of permits may result in an order from the environmental protection administrative authorities to close or temporary suspend or to impose restrictions on the entity's daily operations, in light of the actual serious consequences caused by the entities. The Ministry of Environmental Protection formulates and publishes a list and schedule of classified management of pollutants under the permit system and promotes the adaption of the permits step by step. On 20 January 2017, the Ministry of Environmental Protection issued the Draft List for Classified Administration for Pollution Discharge regarding Stationary Pollution Sources (Trial) (《固定污染源排淤許可分類管理名錄(試行)徵求意見稿》) for public comments for a period of one month. According to such draft list, most of the Group's business, such as brewery production, sewage and water treatment and solid waste treatment, are listed in the draft list and subject to the administration of pollutant discharge permit.

As for now, Beijing Yanjing Brewery, Beijing Gaoantun WTE Co. Limited, Shaanxi Wanquan and Yanjing Beer (Baotou Xuelu) Co., Ltd have not obtained the pollutant discharge permit or still line up to obtain such permit due to the practice of the local environmental protection authority. No assurance can be given that either they will successfully obtain the pollutant discharge permits within the prescribed time limit or at all, or the outcome of operating without a pollutant discharge permit, collectively or individually, will not have a material adverse effect on the Group's business, financial condition and results of operations.

In addition to potential clean-up liability, the Group may become subject to monetary fines and penalties for violation of applicable environmental laws, regulations or administrative orders. For example, Shaanxi Wanquan was required to rectify the non-compliance with environmental laws and regulations for several times and was imposed monetary fines up to RMB300,000 by the local environmental protection authority. Such non-compliance may result in closure or temporary suspension or imposition of restrictions on the Group's operations. The Group may be involved in legal proceedings from time to time that may require it to pay fines, comply with more rigorous standards or incur substantial capital or operating expenses for environmental compliance. Third parties may sue the Group for damages and costs resulting from environmental contamination from its properties and/or production facilities.

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

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

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

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

According to notices from the Beijing Municipal Government dated 16 August 2005 and 21 April 2006, respectively and an implementation plan (《北京燃氣有限公司管道天然氣特許經營項目實施方案》) agreed in principle by Beijing People's Government in 2006, the Group has been granted a concession right to exclusively operate the natural gas network in Beijing for 25 years. According to the "Municipal Utility Concession Administrative Measures" (《市政公用事業特許經營管理辦法》)

(the "**Concession Measures**") issued by the Ministry of Construction in March 2004 which became effective on 1 May 2004, the concession right of operating a natural gas network in an urban area of a city county or province has a maximum duration of 30 years. On 22 January 2007, the Beijing Municipal Administration Commission issued the natural gas operation permit (《北京市燃氣經營許可證》) to the Group for operating the urban natural gas pipeline networks of Beijing.

Upon the expiry of the concession right in 2032, the concession right is subject to re-approval by relevant governmental authorities. No assurance can be given that the Beijing Municipal Government will renew the concession once the concession expires or becomes ineffective. In the event that the concession right in operating a natural gas pipeline network in Beijing is granted to or shared by other piped natural gas distributors, the Group's monopolistic status would be materially and adversely affected and its future development would be constrained.

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

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

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

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

Fees charged by the Group for piped gas to residential customers and pipeline connections to residential customers in the PRC are fixed by local pricing bureaus. In addition, fees charged by the Group for piped gas to customers who use the natural gas for commercial or industrial purposes must fall within a price range set by local pricing bureaus. There is no assurance that local pricing bureaus will increase gas tariffs to take account of any future increases in natural gas prices or that the pricing bureaus will not lower existing tariffs. No assurance can be given by the Group that such cost pass through clause will not be adjusted on less favourable terms or revoked by the relevant authorities. The automatic cost pass through clause is subject to review every three years.

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

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

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

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

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

The Group faces competition from competing products within the energy industry

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

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

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

- repeated failure to comply with the obligations under the Group's licences and failure to remedy a significant breach of obligation in accordance with specified procedures;

- total or partial interruption of service for reasons attributable to the Group;

- sale, assignment or transfer of the Group's essential assets or the placing of encumbrances thereon without prior authorisation, unless such encumbrances serve to finance extensions and improvements to the gas pipeline system;

- bankruptcy, dissolution or liquidation;

- gas supplied failing to meet the national standards, and if such failure persists in spite of warnings of relevant regulatory agencies and beyond grace periods, if any;

- ceasing and abandoning the provision of the licensed service, attempting to assign or unilaterally transfer the Group's licences in full or in part without prior authorisation, or giving up its licenses, other than in the cases permitted therein; and

- delegation of the functions granted in such licenses without the prior regulatory authorisation.

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

The Group's revenues may be adversely affected by changes in climate brought about by global warming

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

Changes in government policies could affect the Group's business

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

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

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

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

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

On 18 November 2015, NDRC released the Circular on Lowering the Price of Natural Gas at City Gate for Non-residential Use and Further Promoting Market-oriented Price Reform. Pursuant to the circular (《關於降低非居民用天然氣門站價格並進一步推進價格市場儀改革的通知》), starting from 20 November 2015, (i) the maximum price of natural gas at city gate for non-residential use is cut by

RMB700 per thousand cubic meter while the price for natural gas used to make fertiliser remains unchanged; and (ii) the maximum price of natural gas at city gate will serve as benchmark price, based on which the natural gas suppliers and consumers will negotiate a specific price, with a cap at 1.2 times of the benchmark price. However, the specific price determined by natural gas suppliers for consumers via negotiation shall not be higher than the benchmark price until 20 November 2016.

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

On 23 December 2016, the NDRC issued the 13th Five-Year Plan for Natural Gas Development (《天然氣發展"十三五"規劃》), according to which the PRC government will adopt multiple approaches to promote the market-oriented reform of natural gas price during years 2016 to 2020, such as separation of pipeline transmission and sale of natural gas, lifting pricing restrictions on natural gas price for non-residential use, promotion of natural gas consumption growth, further perfection of natural gas pricing mechanism for residential use, perfection of the linkage mechanism between the upstream and downstream natural gas price and strengthening of supervision of the price and cost of natural gas transmission.

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

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

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

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

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

Labour disruptions could interrupt the Group's operations

As at 31 December 2016, the Group employed approximately 48,000 employees in the PRC. Some of the Group's PRC employees are currently represented by labour unions. In addition, employees of some of the Group's suppliers, contractors or companies (in each case, especially in the PRC) in which the Group has investments are or may become unionised in the future or experience labour instability. Although the Group enjoys good labour relations with its employees, the Group is unable to predict the outcome of any future labour negotiations. Any conflicts with the Group's employees or contractors and/or their respective unions could have a material adverse effect on its financial condition and results of operations.

Risks relating to the Group's Brewery Business

The brewery business is a highly competitive and fragmented market

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

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

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

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

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

The Group's products are primarily sold through its network of distributors. The Group believes that it has a good relationship with most of its distributors, however, no assurance can be given that these distributors will continue to purchase beer from the Group in the future. In the event that a significant number of the Group's distributors cease to purchase beer from the Group and the Group is unable to sell beer to alternative customers, its profitability may be adversely affected.

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

The Group uses the brand names of "Yanjing," "Liquan," "Huiquan" and "Xuelu" and related trademarks for its beer products. The Group believes that the use of such brand names and trademarks is key to establishing its distinctive corporate and market identities. The passing off of products with famous brand names and trademarks in the PRC remains a concern. Although the Group is not aware of any material infringement of its brand names and trademarks, and there are indications that the PRC government is tightening its control over intellectual property rights infringement, any significant or uncontrolled infringement could have a material adverse effect on the reputation of the "Yanjing," "Liquan," "Huiquan" and "Xuelu" brand names and the Group's financial condition and results of operations.

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

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

The Group's business and financial position may be adversely affected by any claims in respect of product liability

The Group may face claims in respect of product liability such as potential contamination of ingredients or products by bacteria or other external agents that may be wrongfully or accidentally introduced into products or packaging or other potential liability resulting from the handling of brewery products. Although the Group has not experienced any material claims in respect of its business and operations, any product or packaging problem may nevertheless affect the Group's business, financial condition and results of operations, as well as its reputation. Reputational damage may in turn adversely affect the Group's brand name and have a material adverse impact on its financial condition and results of operations.

Risks relating to the Group's Water and Environmental Business

Water shortages and restrictions on the use or supply of water could adversely affect Beijing Water's business

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

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

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

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

Beijing Water is engaged in sewage treatment and water distribution projects primarily on a BOT basis, a transfer-operate-transfer ("**TOT**") basis and public-private partnership ("**PPP**") basis, among which, BOT and TOT basis typically require significant initial cash outlays and have long payback periods. These projects require Beijing Water to make substantial financial investments during the construction phase of the projects, which typically last 12 to 18 months. Beijing Water is responsible for the costs of construction of the sewage or water treatment facilities, and the operation of the facilities during the concession period, which may be up to 30 years, during which period Beijing

Water bears all the costs of maintenance and repair of the facilities. After the construction is completed and commercial operations of the relevant facilities have commenced (in the case of BOT projects) and upon obtaining the TOT Operation Right (in the case of TOT projects), Beijing Water receives regular, typically monthly, tariff payments from customers during the concession term.

Due to the capital intensive and long-term nature of BOT and TOT projects and other project formats requiring capital investment, Beijing Water cannot assure that it will be able to secure adequate funding or refinancing for these projects on terms that are acceptable to it, or at all, or that these projects will achieve their initial expected returns. If Beijing Water fails to obtain project financing or refinancing for its BOT projects and other such projects in the amount budgeted or at all, it may need to finance these projects, which may strain its resources for developing or acquiring other projects and other corporate purposes. In addition, Beijing Water has used certain assets, including equity interest in certain of its subsidiaries and certain sewage treatment and water distribution concession right to secure certain of its financing. Such security will constrain its ability to dispose such assets when required.

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

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

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

Beijing Water may not be able to secure new construction projects

A substantial part of Beijing Water's revenue is generated from its construction services for water environmental renovation projects. For 2014, 2015 and 2016, revenue from construction services accounted for 51 per cent., 62 per cent. and 65 per cent. respectively, of Beijing Water's total revenue. Although Beijing Water expects its construction projects to provide a similar portion of recurring revenue in subsequent periods, a customer that accounts for a material portion of such revenue in a given period may not generate a similar amount of revenue, if any, in subsequent periods. As such, in order for Beijing Water to maintain and increase its revenue and profitability, it needs to secure additional projects from other customers and it may not be successful in doing so.

Beijing Water is subject to risks associated with technological changes

As an established integrated water solutions provider, Beijing Water must ensure that it is able to continually provide state-of-the-art solutions to its customers that meet their needs in order to maintain its market share. However, there are rapid technological changes and improvements in sewage and water treatment technology and equipment. Beijing Water's products and technologies must pass rigorous testing and field trials, which can be time-consuming and expensive. The commencement and completion of the tests and field trials are subject to many factors such as delays in producing or failure to produce test results, data or analysis, inadequate or inconclusive results, changes in regulatory policies or industry standards or delays by government or regulatory authorities. Changes in regulations or standards for sewage and water treatment in regions where Beijing Water conducts its business may also necessitate the use of new technologies or the improvement of its existing technologies.

For example, after the outbreak of Severe Acute Respiratory Syndrome ("**SARS**") in 2003, higher standards for treatment of sewage discharged by hospitals and clinics were imposed by the State Environmental Protection Administration, currently the Ministry of Environmental Protection of the PRC, to prevent the spread of communicable diseases. The Ministry of Health of the PRC (the "**MOH**") and the Standardization Administration of the PRC has promulgated a total of more than 100 standards for drinking water with which Beijing Water is required to comply. Beijing Water may need to develop new technologies or upgrade existing technologies or facilities to meet the standards imposed by the MOH or other regulatory authorities. In the event that Beijing Water is unable to develop or source new and enhanced sewage and water treatment solutions to keep up with such technological changes or changes in regulatory requirements, its market share, results of operations and profitability may be materially and adversely affected.

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

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

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

Revenue from Beijing Water's water distribution business operations consists primarily of tariff payments under relevant projects or concession agreements. Adjustments to tariffs are generally subject to regulation by various authorities in the PRC government. There is no assurance that the government authorities will approve Beijing Water's applications to increase tariffs. Furthermore, even if the PRC government agrees to an adjustment to the tariff, there is no assurance that such adjustment will fully reflect an increase in Beijing Water's actual costs.

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

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

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

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

Failure to achieve the projected utilisation of the facilities Beijing Water operates may adversely affect its earnings

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

Risks relating to the Group's Solid Waste Treatment Business

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

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

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

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

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

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

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

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

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

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

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

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

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

Disposal of solid waste, hazardous waste and medical waste and operation of waste power generation projects have risks

Disposal of solid waste, hazardous waste and medical waste and operation of waste power generation projects have certain safety risks arising from production. The Group's hazardous waste and medical waste projects generally treat hazardous waste that is toxic, harmful and corrosive, as well as medical waste that may be infectious. Therefore, there exist certain risks relating to production safety in the process of collection, loading and unloading, transportation, storage, disposal and resource utilisation of hazardous waste and medical waste. Any occurrence of accidents involving personal safety and pollution in the aforesaid procedures will adversely impact the production and operation of the Group and hence the Group's business, financial condition and results of operations may be materially and adversely affected.

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

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

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

The Group relies on operative rights granted under concession agreements to undertake business operations and any revocation or cancellation of these operative rights or termination of these concession agreements could have a material and adverse impact on its business

Operative rights granted by and/or licenses issued by the relevant government authorities are necessary for the Group to conduct its business. The Group must comply with the restrictions and conditions imposed in the concession agreements to maintain its operative rights. If it fails to comply with any of the conditions, its licenses or operative rights could be cancelled or revoked, or the concession agreement may be terminated which could directly and adversely impact the business operations of the Group.

Risks Relating to the PRC

Changes in PRC political and economic policies and conditions could adversely affect the Group's business and prospects

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

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

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

These limitations on the cash flow between the Group and its PRC subsidiaries could restrict the Group's ability to act in response to changing market conditions and transfer the proceeds from the issue of the Bonds to its onshore subsidiaries and to make dividend payments from its PRC subsidiaries, thus affecting the Group's ability to pay the interest due and payable under the Bonds on each interest payment date, or to pay the principal of the outstanding Bonds on the maturity date.

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

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

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

A significant portion of the Group's business is conducted in the PRC and most of its operating subsidiaries are located in the PRC. As such, these PRC subsidiaries are subject to PRC laws and regulations applicable to foreign investment in the PRC. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior cases have little precedent value in deciding subsequent cases in the civil law legal system. Additionally, such PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. When the PRC government started its economic reforms in 1978, it began to build a comprehensive system of laws and regulations to regulate business practices and overall economic orders of the country. The PRC has made significant progress in the promulgation of laws and regulations dealing with business and commercial affairs of various participants of the economy, involving foreign investment, corporate organisation and governance, commercial transactions, taxation and trade. However, the promulgation of new laws, changes in existing laws and abrogation of local regulations by national laws may have an adverse effect on the Group's business, results of operations and financial condition as well as its prospects. Additionally, given the involvement of different enforcement bodies of the relevant rules and regulations and the non-binding nature of prior court decisions and administrative rulings, the interpretation and enforcement of PRC laws and regulations involve significant uncertainties under the current legal environment. In addition, the enforcement of existing laws or contracts based on existing laws may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. All these uncertainties may limit the legal protections available to Bondholders.

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

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

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

The value of Renminbi is subject to changes in the PRC government's policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994 and prior to July 2005, the official exchange rate for the conversion of Renminbi into U.S. dollar was generally stable. However, in July 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar and permitted the Renminbi to fluctuate within a narrow and managed band against a basket of certain foreign currencies. In August 2015, the PBOC changed the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change resulted in a depreciation in the value of the Renminbi of approximately 1.9 per cent. relative to the U.S. dollar on 11 August 2015. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The national and regional economies in the PRC and the Group's prospects may be adversely affected by natural disasters, acts of God or a recurrence of SARS or an outbreak of other epidemics, such as influenza A subtypes H1N1 and H7N9 and avian flu (H5N1)

The Group's business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of god beyond the Group's control may adversely affect the economic infrastructure and people in the PRC. Some regions in the PRC, including the cities where the Group operates, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought or susceptible to epidemics such as SARS. Past occurrences of epidemics, depending on their scale of occurrence, have caused different degrees of damage to the national and local economies in the PRC. A recurrence of SARS or an outbreak of any other epidemics in the PRC, such as influenza A subtypes H1N1 and H7N9 and avian flu (H5N1), especially in the cities where the Group has operations, may result in material disruptions to its supply chains, its sales and marketing, which in turn may adversely affect the Group's business, results of operations and financial condition, as well as its prospects.

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

The PRC experienced a slowdown in its economic growth in the second half of 2008, in 2009, 2015 and 2016. A number of factors have contributed to this slowdown, including appreciation of the Renminbi, which adversely affected the PRC's exports, and tightening macroeconomic measures and monetary policies adopted by the PRC government aimed at preventing overheating of the PRC's economy and controlling the PRC's level of inflation. The slowdown was further exacerbated by the volatility in the international financial and credit markets and weaker global economies in recent years. Although the PRC continues to grow, the rate of such growth in the future is uncertain.

Substantially all of the Group's business operations are conducted in the PRC. Accordingly, the Group's results of operations, financial condition and prospects are subject to a significant degree to economic developments in the PRC. A negative economic climate could impact the ability of the Group's customers to make capital expenditures, thereby affecting their ability to purchase the Group's products. The recurrence of adverse macroeconomic conditions may have an adverse effect on the Group's business, results of operations and financial condition.

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

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

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

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

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

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

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

The NDRC Circular, including the pilot programmes thereunder, are recent developments and their interpretation may involve significant uncertainty, which may adversely affect the enforceability and/or effective performance of the Bonds.

According to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (Fa Gai Wai Zi [2015] No. 2044) (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044號), issued by the NDRC which came into effect on 14 September 2015 ("**NDRC Circular**"), domestic enterprises and their overseas controlled entities and overseas branches shall procure the registration of any debt securities or medium-to-long term loans issued or incurred outside the PRC with the NDRC prior to the issue of the debt securities or drawings under the loans, and notify the particulars of the relevant issues or drawings within 10 working days after closing. Furthermore, on 22 March 2017, the NDRC issued The Reply of the NDRC to Pilot Enterprises (Second Batch) regarding Administration and Reform of Enterprise Foreign Debt Scale in 2017 (Fa Gai Wai Zi [2017] No. 560) (《國家發展改革委關於2017年外債規模管理改革試點企業 (第二批)的批覆》(發改外資[2017] 560 號)) pursuant to which the NDRC granted the NDRC Quota to Beijing Enterprises Group Company Limited exempting it from the registration requirements on a deal-by-deal basis as long as the debt securities or loan incurred outside the PRC is within the annual quota granted, even though the post-issuance filing with the NDRC is still required and shall be submitted within 20 working days.

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

Risks relating to the Bonds and the Guarantee

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

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

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

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

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

The Issuer is a special purpose financing entity with limited assets and has no business operations other than issuing the Bonds. The proceeds from the issuance of the Bonds will be used by the Issuer to provide the Group with additional financing. The Issuer's ability to make payments on the Bonds is dependent directly on payments from the Group.

An active trading market for the Bonds may not develop

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

The Bonds may not be a suitable investment for all investors

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

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

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

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

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

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

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

The Issuer is not prohibited from issuing further debt which may rank pari passu with the Bonds

There is no restriction on the amount of debt securities that the Issuer may issue that rank pari passu with the Bonds. The issue of any such debt securities may reduce the amount recoverable by investors in the Bonds upon the Issuer's bankruptcy, winding-up or liquidation.

Change of law

The Terms and Conditions of the Bonds are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

Credit ratings may not reflect all risks

The Bonds are expected to be rated "Baa1" by Moody's and "BBB+" by S&P. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

The Issuer may not be able to repurchase the Bonds upon a Change of Control event

The Issuer must offer to purchase the Bonds, upon the occurrence of a Change of Control, at a purchase price equal to 101 per cent. of the principal amount plus accrued and unpaid interest. See "Terms and Conditions of the Bonds — Redemption and Purchase — Redemption for Change of Control Triggering Event" in this Offering Circular.

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

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

The Issuer has the right to redeem the Bonds, in whole but not in part, at their principal amount together with any unpaid accrued interest thereon to the date fixed for redemption if it (or, if the Guarantees were called, the Guarantor) has or will become obligated to pay additional amounts, as a result of any change or amendment to the laws or regulations of the British Virgin Islands as further described in condition 8 of the Terms and Conditions of the Bonds. See "Terms and Conditions of the Bonds — Redemption and Purchase — Redemption for Tax Reasons" in this Offering Circular.

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

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

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

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

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

The Terms and Conditions of the Bonds also provide that the Trustee may, without the consent of the holders of the Bonds, agree to any modification of the Trust Deed, the Terms and Conditions of the Bonds and/or the Agency Agreement which in the opinion of the Trustee will not be materially prejudicial to the interests of the holders of the Bonds and to any modification of the Trust Deed, the Terms and Conditions of the Bonds and/or the Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error or to comply with any mandatory provision of applicable law.

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

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

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

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

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

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

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

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

TERMS AND CONDITIONS OF THE BONDS

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

The issue of €800,000,000 1.30 per cent. guaranteed bonds due 2022 (the "**Bonds**", which term shall include, unless the context requires otherwise, any additional Bonds issued in accordance with Condition 15 and consolidated and forming a single series therewith) was authorised by a resolution of the board of directors of Talent Yield European Limited (the "**Issuer**") passed on 3 April 2017. The Bonds are guaranteed by Beijing Enterprises Holdings Limited (the "**Guarantor**"). The giving of the Guarantee (as defined in Condition 3(b)) was authorised by a resolution of the board of directors of the Guarantor on 3 April 2017. The Bonds are constituted by a Trust Deed (the "**Trust Deed**") dated on or about 21 April 2017 (the "**Issue Date**") between the Issuer, the Guarantor and The Bank of New York Mellon, London Branch (the "**Trustee**" which expression shall, where the context so permits, include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds. These terms and conditions (these "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. Copies of the Trust Deed and of the Agency Agreement (the "**Agency Agreement**") dated on or about 21 April 2017 relating to the Bonds between the Issuer, the Guarantor, the Trustee, The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the "**Registrar**") and as transfer agent (the "**Transfer Agent**"), The Bank of New York Mellon, London Branch as initial principal paying agent (the "**Principal Paying Agent**") and any other agents named in it, are available for inspection during usual business hours upon prior written request and satisfactory proof of holding at the principal office of the Trustee (being at the Issue Date at One Canada Square, London E14 5AL, United Kingdom) and at the specified office of the Principal Paying Agent. The "**Agents**" means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time with respect to the Bonds. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those applicable to them of the Agency Agreement.

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

1 FORM, SPECIFIED DENOMINATION AND TITLE

The Bonds are issued in the specified denomination of €100,000 and integral multiples of €1,000 in excess thereof.

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

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

In these Conditions, "**Bondholder**" and (in relation to a Bond) "**holder**" means the person in whose name a Bond is registered.

2 TRANSFERS OF BONDS

(a) **Transfer**: A holding of Bonds may, subject to the Agency Agreement and Condition 2(d), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or such Transfer Agent may require. In the case of a transfer of part only of a holding of Bonds evidenced by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. No transfer of title to a Bond will be valid unless and until entered on the Register. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, or by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Bondholder upon written request (free of charge to the Bondholders).

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

(c) **Transfer Free of Charge**: Certificates, on transfer of Bonds, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security as the Registrar or the relevant Transfer Agent may require), (ii) the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application and (iii) the relevant Agent being satisfied that the regulations concerning transfer of the Bonds, the initial form of which is scheduled to the Agency Agreement, have been complied with.

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

3 STATUS AND GUARANTEE

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

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

4 NEGATIVE PLEDGE AND OTHER COVENANTS

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

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

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

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

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

(d) **Notification to NDRC**: For the benefit of the Bonds, the Guarantor undertakes to file or cause to be filed with the NDRC the requisite information and documents within the prescribed time frame after the Issue Date in accordance with The Reply of the NDRC to Pilot Enterprises (Second Batch) regarding Administration and Reform of Enterprise Foreign Debt Scale in 2017 (Fa Gai Wai Zi [2017] No. 560) (《國家發展改革委關於2017年外債規模管理改革試點企業(第二批) 的批覆》(發改外資[2017]560號)) issued by the NDRC and which came into effect on 22 March 2017, which supplemented and amended the implementation rules of the NDRC Circular (the "**NDRC Post-issue Filing**"). The Guarantor shall complete the NDRC Post-issue Filing and shall comply with all applicable PRC laws and regulations in connection with the Notes. The Guarantor shall within five China Business Days after submission of such NDRC Post-issue Filing provide the Trustee and the Principal Paying Agent with a notice substantially in the form scheduled to the Trust Deed confirming the due completion of the NDRC Post-issue Filing and requesting the Principal Paying Agent to arrange for dissemination to the Bondholders in accordance with Condition 16 on behalf of the Issuer of a notice confirming the due completion of the NDRC Post-issue Filing.

In these Conditions:

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

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

"**NDRC Circular**" means Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (Fa Gai Wai Zi [2015] No. 2044) (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time;

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

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

5 INTEREST

The Bonds bear interest on their outstanding principal amount from and including 21 April 2017 at the rate of 1.30 per cent. per annum, payable annually in arrear in equal instalments of €13.00 per Calculation Amount (as defined below) on 21 April in each year, commencing 21 April 2018 (each an "**Interest Payment Date**").

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

If interest is required to be calculated for a period of less than a full year, the day-count fraction used shall be (a) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but excluding the date on which it falls due divided by (b) the actual number of days in the year in which the relevant period falls.

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

6 REDEMPTION AND PURCHASE

(a) **Final Redemption**: Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on 21 April 2022 (the "**Maturity Date**"). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

(b) **Redemption for Tax Reasons**: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Guarantee was called, the Guarantor) satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 12 April 2017, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due. Prior to the giving of any notice of redemption pursuant to this Condition 6(b), the Issuer (or the Guarantor, as the case may be) shall deliver to the Trustee a certificate signed by two directors of the Issuer who are also Authorised Signatories of the Issuer (or two directors of the Guarantor who are also Authorised Signatories of the Guarantor, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (i) and (ii) above of this Condition 6(b) without further enquiry and without liability to any Bondholder or any other person, in which event the same shall be conclusive and binding on the Bondholders.

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

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

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

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

For the purposes of these Conditions:

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

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

(ii) any Person or Persons acting together acquires directly or indirectly Control of the Guarantor if such person or persons does not have, and would not be deemed to have, Control of the Guarantor on 21 April 2017;

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

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

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

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

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

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

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

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

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

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

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

(d) **Redemption at the Option of the Issuer**: The Issuer may, at any time upon giving not less than 30 nor more than 60 days' notice to the Bondholders and the Trustee (which notice shall be irrevocable) (the "**Optional Redemption Notice**"), redeem the Bonds, in whole but not in part, at a redemption amount equal to (x) the principal amount of the Bonds plus any accrued but unpaid interest or, if higher, (y) the Make-Whole Price (the "**Early Redemption Amount**").

In this Condition 6(d):

if "**Actual/Actual (ICMA)**" is specified hereon:

(a) if interest is required to be calculated for a period equal to or shorter than the Determination Period during which it falls, the number of days in such period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if interest is required to be calculated for a period longer than one Determination Period, the sum of:

(x) the number of days in such period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of the days in such period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s); and

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding next Determination Date.

"**Independent Investment Bank**" means any one of the Reference Dealers jointly selected by the Issuer and the Guarantor in good faith and notified in writing to the Trustee by the Issuer or the Guarantor;

"**Make-Whole Price**" will be the greater of (x) 100 per cent. of the principal amount of the Bonds so redeemed and, (y) the sum of the then present values of the remaining scheduled payments of principal and interest on the Bonds (not including any interest accrued on the Bonds to, but excluding, the date of redemption (the "**Optional Redemption Date**")) discounted to the Optional Redemption Date on an annual basis (Actual/Actual (ICMA)) at the Redemption Rate plus a Redemption Margin, plus in each case (x) or (y) above, any interest accrued and unpaid on the Bonds to, but excluding, the Optional Redemption Date. The Make-Whole Price will be calculated by the Independent Investment Bank. In the case of interest calculated for the purpose of determining the Make-Whole Price, the day-count fraction used shall be Actual/Actual (ICMA);

"**Redemption Margin**" is 0.30 per cent. per annum.

"**Redemption Rate**" is the average of the four quotations given by the Reference Dealers of the midmarket annual yield to maturity of the Reference Security on the fourth business day in London preceding the Optional Redemption Date at 11.00 a.m. (Central European time (CET));

"**Reference Dealer**" means each of the four investment banks of recognised standing which are primary European government security dealers jointly selected by the Issuer and the Guarantor in good faith and notified in writing to the Trustee by the Issuer or the Guarantor, and their respective successors, or market makers in pricing corporate bond issues; and

"**Reference Security**" means an interest-bearing German government bund security selected by the Independent Investment Bank as having an actual or interpolated maturity comparable with the remaining term of the Bonds, or if the Independent Investment Bank in its discretion considers that such similar security is not in issue, such other interest-bearing German government bund security as the Independent Investment Bank may, with the advice of the Reference Dealers, determine to be appropriate for determining the Reference Rate.

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

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

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

7 PAYMENTS

(a) **Method of Payment**:

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

(ii) Interest on each Bond shall be paid to the person shown on the Register at the close of business on the fifth business day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Bond shall be made in euro by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date or at the discretion of the relevant Paying Agent, such payment of interest may be made by transfer to an account in euro maintained by the payee with a bank.

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

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

(b) **Payments subject to Fiscal Laws**: All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 147 1(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Bondholders in respect of such payments.

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

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

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

(e) **Delay in Payment**: Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a business day, if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 7(a)(ii) arrives after the due date for payment.

(f) **Non-Payment Business Days**: If any date for payment in respect of any Bond is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**business day**" means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for business in London and which is also a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System is open and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

8 TAXATION

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

Where such withholding or deduction is made by the Issuer or the Guarantor (as the case may be) as a result of the Issuer or the Guarantor (as the case may be) being deemed by PRC tax authorities to be a PRC tax resident at the rate of up to and including the aggregate rate applicable on 12 April 2017 (the "**Applicable Rate**"), the Issuer, or as the case may be, the Guarantor will increase the amounts paid by it to the extent required, so that the net amounts received by the Bondholders equals the amounts which would otherwise have been received by them had no such withholding or deduction been required.

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

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

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

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

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

9 EVENTS OF DEFAULT

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

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

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

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

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

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

(f) **Winding-up**: an order is made or an effective resolution passed for (i) the termination, winding-up or dissolution, administration or judicial management of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries or (ii) the winding-up, dissolution, judicial management or administration of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries, or the Issuer, the Guarantor or any of the Guarantor's Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of, and followed by, a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the Bondholders; or

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

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

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

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

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

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

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

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

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

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

For the purpose of these Conditions,

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

10 PRESCRIPTION

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

11 REPLACEMENT OF CERTIFICATES

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

12 MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

(a) **Meetings of Bondholders**: The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if it receives a written request from Bondholders holding not less than 10 per cent. in aggregate principal amount of the Bonds for the time being outstanding and is indemnified and/or secured and/or prefunded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in aggregate principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, any premium payable in respect of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, or (v) to modify or cancel the Guarantee, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in aggregate principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

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

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

(c) **Substitution**: The Trust Deed contains provisions permitting (but not obliging) the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of any other company in place of the Issuer or the Guarantor, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed and the Bonds. In the case of such a substitution, the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Under the Trust Deed, the Trustee may agree or require the Issuer to use all reasonable endeavours to procure the substitution as principal debtor under the Trust Deed and the Bonds of a company incorporated in some other jurisdiction in the event of the Issuer becoming subject to any form of tax on its income or payments in respect of the Bonds, and provided that such substitution shall not at the time of substitution result in a downgrading of any rating assigned to the Bonds.

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

13 ENFORCEMENT

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

14 INDEMNIFICATION OF THE TRUSTEE

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

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

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision or giving any such direction, to seek directions from the Bondholders by way of Extraordinary Resolution, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Guarantor, the Bondholders or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision or giving such direction as a result of seeking such direction from the Bondholders or in the event that no direction is given to the Trustee by the Bondholders.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Guarantor and any other person appointed by the Issuer and/or the Guarantor in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer or the Guarantor to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. The Trustee shall not be liable to any Bondholder, the Issuer, the Guarantor or any other person for any action taken by the Trustee in accordance with the instructions of the Bondholders. The Trustee shall be entitled to rely on any direction, request or resolution of Bondholders given by holders of the requisite principal amount of Bonds outstanding or passed at a meeting of Bondholders convened and held in accordance with the Trust Deed. Neither the Trustee nor any of the Agents shall be under any obligation to ascertain whether any Event of Default, Potential Event of Default (as defined in the Trust Deed) or Change of Control Triggering Event has occurred or to monitor compliance by the Issuer or the Guarantor with the provisions of the Trust Deed, the Agency Agreement or these Conditions.

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

15 FURTHER ISSUES

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

16 NOTICES

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

17 GOVERNING LAW AND JURISDICTION

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

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

(c) **Agent for Service of Process**: Each of the Issuer and the Guarantor has irrevocably agreed to appoint Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent in England to receive service of process in any Proceedings in England based on any of the Bonds. If for any reason the Issuer (or as the case may be, the Guarantor) does not have such an agent in England, the Issuer (or as the case may be, the Guarantor) will promptly appoint a substitute process agent and notify the Bondholders of such appointment within 30 days of the Issuer (or as the case may be, the Guarantor) ceasing to have a process agent in England. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

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

Terms defined in the terms and conditions of the Bonds (the "**Conditions**" or "**Terms and Conditions**") set out in this Offering Circular have the meaning in the paragraphs below.

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

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

The Global Certificate will become exchangeable for individual Certificates in definitive form if the Bonds evidenced by the Global Certificate are held on behalf of Euroclear or Clearstream or any other clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

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

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

Record date: So long as the Bonds are evidenced by the Global Certificate, each payment in respect of the Global Certificate will be made to the person shown as the holder of the Bonds in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

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

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

Transfer of Bonds evidenced by Global Certificate: Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants. Where the holding of Bonds evidenced by the Global Certificate is only transferable in its entirety, the certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as or as nominee for a common depositary for Clearstream, Euroclear and/or an Alternative Clearing System.

Cancellation: Cancellation of any Bond evidenced by the Global Certificate which is required by the Terms and Conditions of the Bonds to be cancelled will be effected by reduction in the principal amount of the Bonds in the register of the Bonds and the Global Certificate on its presentation to or to the order of the Principal Paying Agent for annotation (for information only) in the Global Certificate.

Meetings: For the purposes of any meeting of Bondholders, the holder of the Bonds evidenced by the Global Certificate shall (unless the Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each €100,000.

Payment: Payments of principal, interest and premium (if any) in respect of Bonds evidenced by the Global Certificate held through Euroclear or Clearstream will be credited, to the extent received by the Principal Paying Agent or such other Paying Agent, to the cash accounts of Euroclear and Clearstream participants in accordance with the relevant system's rules and procedures and will be made without presentation for endorsement by the Principal Paying Agent or such other Paying Agent and, if no further payment falls to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Paying Agent or to the order of such other Paying Agent as shall have been notified to the relevant holder for such purpose. No person shall however be entitled to receive any payment on the Global Certificate (or such part of the Global Certificate which is required to be exchanged) falling due after any date of exchange into individual Certificates in definitive form unless exchange of the Global Certificate for such individual Certificates is improperly withheld or refused by or on behalf of the Issuer or the Issuer does not perform or comply with any one or more of what are expressed to be its obligations under any such individual Certificates.

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

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

USE OF PROCEEDS

The Issuer intends to on-lend the net proceeds from the subscription of the Bonds to the Guarantor for the refinancing of the Guarantor's existing liabilities, for working capital and for general corporate purposes.

CAPITALISATION AND INDEBTEDNESS

The following table sets out, on a consolidated basis, the capitalisation of the Guarantor as at 31 December 2016, on an actual basis and as adjusted to give effect to the issue of the Bonds and aggregate principal amount of the Bonds:

	As at 31 December 2016		
	Actual	As Adjusted[1]	
	(HK$'000)	(HK$'000)	(US$'000)
Short-term borrowings			
Bank and other borrowings	18,418,558	18,418,558	2,375,546
Long-term borrowings			
Guaranteed bonds and senior notes[2]	19,333,950	19,333,950	2,493,609
Bank and other borrowings	12,876,585	12,876,585	1,660,766
Bonds being offered[3]	—	6,545,110	844,160
Total short-term and long-term borrowings	50,629,093	57,174,203	7,374,081
Shareholders' equity			
Share capital[4]	30,401,883	30,401,883	3,921,103
Reserves	26,919,325	26,919,325	3,471,938
Total equity[5]	57,321,208	57,321,208	7,393,041
Total capitalisation[6]	107,950,301	114,495,411	14,767,122

Notes:

(1) Figures in the "As adjusted" column reflect the issue of the Bonds and the receipt of the gross proceeds thereof. The translations from EUR to US$ were made at a rate of EUR1.00 to US$1.0552, the noon buying rate in effect on 30 December 2016 as set forth in the H.10 statistical release of the Federal Reserve System.

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

(3) The translation from HK$ to US$ were made at the rate of HK$7.7534 to US$1.00 and the translation from EUR to US$ were made at rate of EUR1.00 to US$1.0552, both being the noon buying rate in New York City on 30 December 2016 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System.

(4) The issued share capital of the Guarantor consisted of 1,262,153,268 shares of no par value as at 31 December 2016.

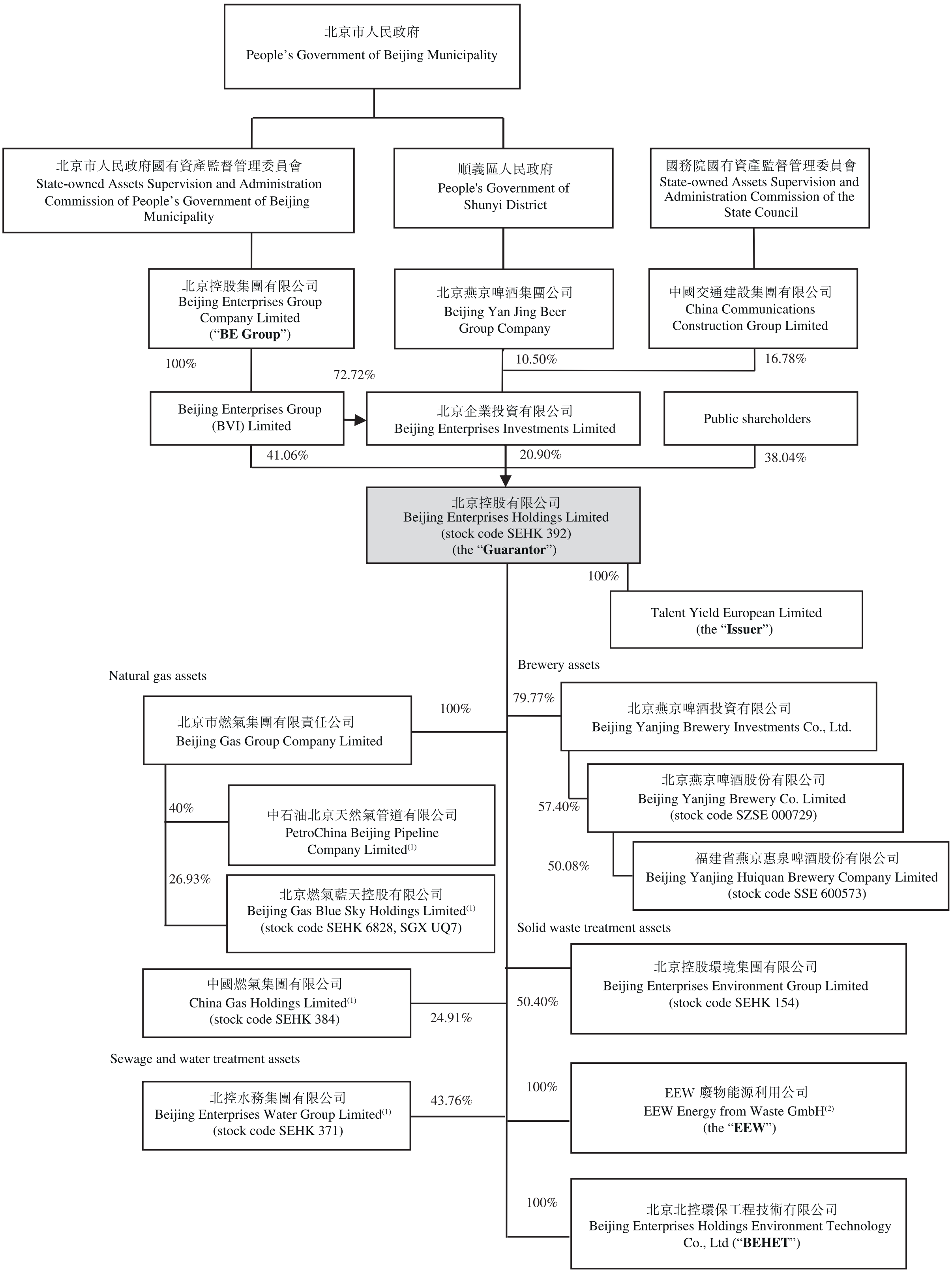
(5) Total equity is the total equity attributable to the shareholders of the Guarantor.

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

Save as indicated above, there has been no material change in the total capitalisation and indebtedness, on a consolidated basis, of the Guarantor since 31 December 2016 up to the date of this Offering Circular.

GROUP STRUCTURE

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



(1) Accounted for as an associate.

(2) In March 2016, the Group acquired the entire stake in EEW Holding GmbH and M+E Holding GmbH & Co. KG (which respectively held 99.64 per cent. and 0.36 per cent., and together held 100.0 per cent. equity interest of EEW).

THE ISSUER

The Issuer, incorporated in the British Virgin Islands on 3 March 2017 with company number 1938531, is a wholly-owned subsidiary of the Guarantor. The Issuer was established for the sole purpose of issuing the Bonds. The registered office of the Issuer is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

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

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

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

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

THE GUARANTOR

The Guarantor, incorporated in Hong Kong on 26 February 1997 is a limited liability company with registration number 0596005 and the shares of which are listed on the Main Board of the Hong Kong Stock Exchange (SEHK: 0392). The registered office of the Guarantor is at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

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

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

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

THE GROUP

Overview

The Guarantor is a conglomerate backed by the Beijing Municipal Government, its major shareholder, which has focused on managing strategic infrastructure, public utilities and other investments since its listing on the Hong Kong Stock Exchange on 19 May 1997. The Guarantor's broad portfolio of assets includes natural gas distribution and transmission assets, brewery operations, sewage and water treatment facilities, solid waste treatment facilities and other investments. Leveraging these assets, the Guarantor seeks to achieve consistent financial performance and to attract international investment to develop further Beijing's municipal infrastructure and its other businesses. The Guarantor's diversified portfolio of businesses includes Beijing Gas, China Gas, Yanjing Brewery, Beijing Water and Beijing Environment, each with a leading market position and stable cash flows, enabling the Guarantor to manage volatility across the various business segments, thereby positioning the Guarantor to capture growth opportunities in Beijing and throughout the PRC.

Beijing Gas, in which the Guarantor has a 100 per cent. interest, ranks as one of the largest city natural gas suppliers in the PRC with pipelines in operation in Beijing of approximately 17,430 kilometres and approximately 5.4 million natural gas users as at 31 December 2016. With over five decades of fuel gas management experience and expertise, Beijing Gas' natural gas distribution network supplies natural gas to residential, industrial and power generation users in the Greater Beijing city area. Consistent with the PRC government's objective to reduce coal-fired power generation in the Greater Beijing city area, the Guarantor expects such growth opportunities to help maintain and expand the Guarantor's leading position through coal-to-gas power plant conversions and increased promotion of natural gas as a cleaner alternative to other power generation fuels.

China Gas, in which the Guarantor has a 24.91 per cent. interest, is a gas operator and service provider primarily engaged in the investment in and construction and operation of city gas pipeline infrastructure facilities, gas terminals, storage and transportation facilities, gas logistics systems, transmission of natural gas and liquefied petroleum gas ("**LPG**") to residential, industrial and commercial customers, construction and operation of natural gas refilling stations for vehicles as well as the development and application of technologies relating to petroleum, natural gas and LPG in China.

Yanjing Brewery, in which the Guarantor has a 45.79 per cent. effective interest, operates one of the largest breweries in the PRC with a diversified brand and product portfolio, a leading market position in Beijing and strong national reputation. Yanjing Brewery produces a wide variety of products designed to appeal to different consumer groups and covering different price points. Through its wide-reaching local production centres, it distributes beer and other beverage products to most parts of the PRC using a three-tier distribution network of distributors, wholesalers and retailers.

Beijing Water, in which the Guarantor has a 43.76 per cent. interest, principally operates water treatment and water distribution projects in 19 provinces, four autonomous regions and two municipalities across the PRC as well as in Singapore, Malaysia and Portugal. Extensive PRC government policy directives intended to ensure a safe and reliable water distribution throughout the PRC have resulted in opportunities to bundle sewage and water treatment projects, thereby enabling Beijing Water to leverage its design, construction and operations expertise for provincial governments nationally. Beijing Water has developed an integrated business model with design and technical consultancy, construction, ownership and operational capabilities for sewage and water treatment projects. Beijing Water's extensive project capabilities enable it to capture the entire value chain from project concept and design stages through construction and operation.

Beijing Environment (formerly known as Beijing Development (Hong Kong) Limited), in which the Guarantor has a 50.40 per cent. interest, is primarily engaged in environmental protection and solid waste treatment business in China.

The Guarantor recorded revenue of HK$47,935.8 million, HK$60,149.9 million and HK$55,958.8 million for 2014, 2015 and 2016, respectively. The Group had total assets of HK$124,173.8 million, HK$124,766.0 million and HK$144,708.8 million as at 31 December 2014, 2015 and 2016, respectively.

Competitive Strengths

The Guarantor believes its competitive strengths include:

Strong support from the Beijing Municipal Government

As at the date of this Offering Circular, the Beijing Municipal Government, through companies under its control and supervision, has a 58.45 per cent. effective interest in the Guarantor. The Guarantor enjoys a number of direct and indirect benefits as a result of its status as the key utilities investment and operating platform of State-owned Assets Supervision and Administration Commission of People's Government of the Beijing Municipal Government ("**Beijing SASAC**").

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

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

  — *Natural gas business*: The Beijing Municipal Government has entitled the Guarantor the effective monopoly rights to distribute natural gas in Beijing for a 25-year period ending in 2032. Moreover, the Guarantor believes its strategic relationship with Beijing Municipal Government would assist its 40 per cent. investment company, PetroChina Beijing Pipeline, to identify and source new natural gas transmission pipelines throughout the PRC as well as secure large-scale projects from local governments. The strong relationship with the PRC government and state-owned enterprises enhanced the Guarantor's bargaining power in relation to the cost pass-through mechanism for preserving margins related to natural gas distribution as well as upstream wellhead price-setting.

  — *Water and environmental business*: With Beijing Municipal Government's support, Beijing Water was granted the franchise operating rights for the Beijing No.9 water treatment plant and Beijing No. 10 water treatment plant, two of the most important water treatment and water distribution development projects in Beijing. The strong relationship with the PRC government also facilitated Beijing Water to expand its presence by investing and operating water treatment and water distribution projects in 19 provinces, four autonomous regions and two municipalities across China as well as in Singapore, Malaysia and Portugal.

  — *Solid waste treatment business*: With the support of the Beijing Municipal Government, the Guarantor obtained the concession rights to invest, construct, manage and operate 北京市海澱區循環經濟產業園再生能源發電廠PPP項目 (Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Plant PPP Project) (the "**Haidian Project**"), a large scale WTE project in Beijing with a processing capacity of 2,500 tons per day. The Haidian Project will be partially financed by the Beijing Municipal Government and the economics and feasibility of the Haidian Project are supported by government policy from the Beijing Municipal Government.

- *Support for strategic acquisition and disposal of non-core and non-profitable assets by the Group:*

  The Beijing Municipal Government has been very supportive for the Guarantor to execute its strategic plans by acquiring strategic assets and disposing non-core assets:

  — *Strategic acquisition:* With the support of the PRC government, on 7 November 2016, Beijing Gas entered into an agreement to acquire approximately 20 per cent. of the share capital of Verkhnechonskneftegaz, a public joint-stock company holding a licence to develop the Verkhnechonsk oil, gas and condensate field in the Russian Federation (the "**Rosneft Oil Acquisition**"). Upon completion of the transaction, the parties will explore the possibility of supplying the gas to the PRC. The Rosneft Oil Acquisition represents a strategic opportunity for the Group to expand its business along the value chain into the upstream sector of oil and gas supply and it further enhances the Group's industry position in the gas distribution sector. In addition, in February 2016, the Guarantor successfully completed the merger and acquisition of 100.0 per cent. equity interest of EEW, the largest waste incineration power enterprise in Germany. It is by far the largest overseas merger and acquisition project undertaken by a Chinese enterprise in the solid waste treatment sector. The acquisition of EEW is in line with the Guarantor's strategy to expand its solid waste treatment business platform and enhance the Group's industry position.

— *Strategic disposal:* In March 2016, Beijing Environment completed the disposal of 72 per cent. equity interest in BE Information Technology Group Limited, a company principally engaged in IT services, to a subsidiary of BE Group. By spinning off of its non-profitable IT services business, Beijing Environment is able to focus on its core business of environmental protection and solid waste treatment. The asset disposals are in line with the Guarantor's strategy to position itself as a utilities conglomerate focusing on urban energy services.

- *Providing financial support:* As a result of the Beijing Municipal Government's policy of ongoing support for the Guarantor and its businesses, the Guarantor is able to secure financing at attractive rates. All of the offshore loan agreements of the Guarantor include conditions that require BE Group to hold directly or indirectly the majority stake in the Guarantor and the Beijing Municipal Government to control and supervise BE Group. In May 2015 and December 2015, Talent Yield (Euro) Limited and Top Luxury Investment Limited (both wholly-owned subsidiaries of the Guarantor) issued guaranteed bonds with principal amounts of €500 million and US$200 million, respectively. The two bonds were priced at competitive rates due to the strong support and credit of the Beijing Municipal Government.

- *Close relationship between Beijing SASAC and the Guarantor's senior management:* The Guarantor has been a flagship and key asset for Beijing SASAC for a long time. The close relationship between Beijing SASAC and the Guarantor has been strengthened throughout the years. Several chief officers of Beijing SASAC have been assumed the senior management positions in the Guarantor before, including previous chief officer Mr. Xiong Daxin who assumed the position of Executive Director and Vice Chairman of the Guarantor and current chief officer Mr. Lin Fusheng who was the Guarantor's Executive Director and Vice Chairman. Several of BE Group and the Guarantor's senior management, including Chairman Mr. Wang Dong and Vice Chairman Mr. Hou Zibo, have previously held senior positions in the Beijing SASAC. The Beijing Municipal Government directly appoints such officers with the responsibility for adding value to the state-owned assets that the Guarantor manages in order to facilitate Beijing SASAC's supervision and control of the Guarantor's operating risks.

Favourable market positions to benefit from supportive PRC government policies

One of the Guarantor's principal businesses relates to the distribution and transmission of natural gas, particularly to the expanding Greater Beijing city for a 25-year period ending in 2032. The Energy Development Strategic Action Plan (2014-2020)《能源發展戰略行動計劃 (2014-2020年)》issued by State Council in June 2014 stated clearly the PRC government's intention to develop natural gas and emphasise the importance of natural gas in the energy structure. By 2020, the share of natural gas in the total energy consumption in China is expected to increase from 5.1 per cent. in 2013 to 10.0 per cent. In recent policy announcements, the PRC government has stated its intention to reduce air pollution and other detrimental environmental effects in major urban areas to increase the liveability of the PRC's cities. Also, the 13th Five-Year Plan for National Economic and Social Development of the PRC (《中華人民共和國國民經濟和社會發展第十三個五年規劃綱要》) approved by the National People's Congress on 16 March 2016 reiterated the PRC government's plan on pollution control by increasing city gas penetration rate, eliminating coal-fired boiler with a capacity less than 10 tons of steam per hour in cities above prefecture level, pushing forward 'coal-to-gas' projects in key cities and eliminating coal-fired boilers with a capacity of 189,000 tons in total during the 13th Five-Year Period. The State Council of the PRC promulgated the Comprehensive Energy-saving and Pollutant Reduction Work Plan in the 13th Five-Year (《"十三五"節能減排綜合工作方案》) on 20 December 2016, which aims to increase natural gas consumption to 10 per cent. of the total energy consumption and to promote the coverage of the sewage treatment as well as the solid waste treatment in rural areas by 2020. Furthermore, the PRC government and the government of the Russian Federation signed a landmark contract in May 2014 in which Russia agreed to supply 38 billion cubic metres of natural gas to the PRC, which is estimated to be the equivalent of one-quarter of the PRC's current annual consumption, for a period of 30 years beginning in 2018. Through coal-to-gas conversions of major electricity generators in and around Beijing and the expected subsequent increased usage of natural gas following such conversions, as well as the favourable development of national policy, the Guarantor believes it is well-positioned to benefit from PRC government policy directives promoting cleaner-burning fuels such as natural gas in the residential, industrial and power generation sectors.

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

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

Beijing Gas holds effective monopoly rights to distribute natural gas in the expanding Greater Beijing city for a 25-year period ending in 2032 pursuant to notices from the Beijing Municipal Government dated 16 August 2005 and 21 April 2006, respectively and an implementation plan 《北京燃氣有限公司管道天然氣特許經營項目實施方案》 agreed in principle by Beijing People's Government in 2006. The Guarantor believes it ranks as one of the largest natural gas retail operators in the PRC, with pipelines in operation in Beijing of approximately 17,430 kilometres in length, eight citygates, 16 spherical gas holding stations and approximately 5.4 million natural gas users as at 31 December 2016. This leading position, bolstered by strong support from the Beijing Municipal Government and significant infrastructure investment to extend Beijing Gas's network to Beijing's satellite new towns, provides Beijing Gas with a solid platform for growth and a healthy basis for future revenue streams and establishes significant barriers to entry for potential competitors.

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

In 2016, Beijing Gas invested in Blue Sky Power Holdings Limited (now known as Beijing Gas Blue Sky Holdings Limited) ("**Beijing Gas Blue Sky**"), a company listed on the main board of the Hong Kong Stock Exchange (stock code: 6828) and the Singapore Exchange Securities Trading Limited (stock code: UQ7) by subscribing its shares and convertible bonds. As at the date of this Offering Circular, Beijing Gas holds 26.93 per cent. of the issued share capital and HK$130,000,000 worth convertible bonds of Beijing Gas Blue Sky. Beijing Gas Blue Sky is principally engaged in sale and distribution of natural gas and other related products in the PRC, with an emphasis on the mid to downstream side of the natural gas industry value chain. The investment represents a valuable opportunity for the Group to further develop the natural gas businesses domestically and to participate in the development of existing natural gas projects of Beijing Gas Blue Sky. The Guarantor believes this can further enhance Beijing Gas's influence and solidify its leading industry position in the natural gas business.

Yanjing Brewery enjoys a favourable market position in the PRC

Leveraging on its success in its core market in Beijing, Yanjing Brewery had actively pursued new market opportunities outside of Beijing with favourable results. As at 31 December 2016, based on Yanjing Brewery's estimates, Yanjing Brewery had a market share of more than 11 per cent. in the PRC, consisting provinces such as Hebei, Shanxi, Guangxi and Inner Mongolia, and approximately 85 per cent. in Beijing. With the accomplishment of its marketing strategies in Greater Southwest market, rapid development of its growing market, like Xinjiang, Sichuan and Yunnan, Yanjing Brewery is expecting a solid profit increase. Yanjing Brewery believes its well defined beer product portfolio, namely, "Yanjing", "Liquan", "Huiquan" and "Xuelu", clear overall marketing strategy, resources allocation and production efficiency, all contribute to its overall business prospects.

Diversified business portfolio reducing business concentration risk

The Guarantor believes its natural gas distribution and transmission network, brewery operations, sewage and water treatment facilities and solid waste treatment facilities will continue to provide stable cashflows in the coming years due to their strong track record and the Guarantor's prudent fiscal policy. Enhanced by the alliance between the Guarantor's asset base and PRC government policies for cleaner burning fuels for power generation and the need to increase the stability of clean water distribution to urban areas, the Guarantor believes its business segments are well positioned to access these opportunities. Moreover, to further reduce business concentration risk, the Guarantor is actively diversifying its business geographically. In the natural gas distribution business, the Guarantor owns a 24.91 per cent. stake in China gas with piped natural gas supply in 223 cities and 290 processing stations in 25 provinces. The Rosneft Oil Acquisition serves as another step to enhance the Group's involvement in the natural gas value chain by exploring the upstream oil and gas supply business.

Leveraging its track record and its market presence in 19 provinces, four autonomous regions and two municipalities in the PRC, Beijing Water further diversified its business geographically by developing international markets in Singapore, Malaysia and Portugal.

In addition, the Guarantor develops its solid waste treatment business and enhances its national and international presence in such business by both merger and acquisition and expansion of scale of existing projects. In February 2016, the Guarantor successfully completed the acquisition of 100.0 per cent. equity interest of EEW, the largest waste incineration power enterprise in Germany.

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

Track record of strong growth with attractive and visible growth prospects

The Group has achieved strong growth over the past several years.

- Beijing Gas's natural gas sales volume increased from approximately 10.0 billion cubic metres to 13.1 billion cubic metres and further to 14.4 billion cubic metres for 2014, 2015 and 2016, respectively.

- PetroChina Beijing Pipeline's natural gas transmission volume increased from approximately 30.0 billion cubic metres to 32.9 billion cubic metres and further to 34.9 billion cubic metres for 2014, 2015 and 2016, respectively.

- Beijing Water expanded its total daily design capacity for its projects from 20.2 million tons as at 31 December 2014 to 24.6 million tons as at 31 December 2015, and further to 27.2 million tons as at 31 December 2016.

As a result, the Group's revenue for the year increased from HK$47,935.8 million in 2014 to HK$60,149.9 million in 2015 but slightly decreased to HK$55,958.8 million in 2016. The Group's profit for the year increased from HK$5,405.6 million to HK$5,955.9 million and further to HK$6,639.2 million for 2014, 2015 and 2016, respectively.

The Guarantor believes it is well-positioned to participate in the potential future growth in PRC energy consumption and demographic trends such as the increasing urbanisation of the PRC's population. Driven by escalating energy consumption levels and the PRC government policies encouraging cleaner-burning fuels for power generation in urban areas, the Guarantor expects its natural gas network to significantly expand as natural gas supply increases to the Beijing metropolitan and other areas. Likewise, the Guarantor expects national water policies to support the Guarantor's sewage and water treatment facilities, including the Guarantor's design and construction capabilities related to green-field projects.

Excellent management with a proven track record and deep industry expertise

The Guarantor continues to seek attractive energy and infrastructure investments in the PRC and to enhance the value of the Guarantor's existing businesses. The Guarantor's strategic investments in Beijing Environment, China Gas, Beijing Gas Blue Sky, EEW and Verkhnechonskneftegaz as well as its divestments of non-core business such as IT services identified by the Guarantor's management team demonstrate the Guarantor's commitment to focusing on key strategic assets with strong and consistent profit margins. Moreover, the Guarantor believes its profound understanding of local market and close relationship with the Beijing Municipal Government enables the Guarantor to manage assets more effectively than its competitors. See "*Directors and Management*".

Business Strategy

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

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

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

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

The PRC government has been encouraging high energy consumption and high emission industries to replace highly-polluting coal and oil gradually with natural gas, a clean energy, to strengthen energy conservation and emission reduction. The State Council of China promulgated an Action Plan on Prevention and Control of Air Pollution (《大氣污染防治行動計劃》) in September 2013 (the "**Clean Air Action Plan**"). According to the Clean Air Action Plan, efforts are to be made to modify small coal-fired boilers and accelerate the construction of central heating systems and "coal-to-gas" conversion projects. By 2017, cities at and above prefecture level will have to eliminate coal-fired boilers with an efficiency rate of 10 or less tons of steam per hour, and stop building new coal-fired boilers with an efficiency rate of 20 tons or less tons of steam per hour.

As part of the implementation of the Clean Air Action Plan, the Beijing Municipal Environmental Protection Bureau promulgated the 2013-2017 Clean Air Action Plan of Beijing City (《北京市2013-2017年清潔空氣行動計劃》) (the "**Beijing Clean Air Action Plan**"). According to the Beijing Clean Air Action Plan, the consumption of coal each year will be controlled at no more than 10 million ton by the end of 2017, and the usage of clean energy such as natural gas is expected at increase to represent more than 90 per cent. of the total energy consumption. By the end of 2017, the number of vehicles powered by clean energy such as natural gas is expected to reach 200,000. The State Council of China also released Circular on Several Opinions on Long-term Mechanisms for Securing Stable Natural Gas Supplies (《保障天然氣穩定供應長效機制若干意見的通知》) in April 2014 to secure the availability of 112 billion cubic metres of natural gas by 2020 to meet the demand from "coal-to-gas" conversion projects. In 2016, Beijing Gas commenced the reconstructing works of "coal-to-gas conversion" for boilers and the implementation of "coal-to-gas replacement" projects in villages.

The Group will continue to actively involve in the Clean Air Action Plan by implementing the "coal-to-gas conversion" projects for boilers and "coal-to-gas replacement" projects in villages. Capturing this opportunity will substantially facilitate and enhance natural gas sales by Beijing Gas and China Gas to industrial users and for winter heating consumption.

Adjusting products mix, market and branding strategy of Yanjing Brewery

Since 1999, Yanjing Brewery has expanded beyond its leading position in Beijing to operate 39 breweries in 18 provinces with nationwide sales volume of approximately 4.5 billion litres in 2016. Through Yanjing Brewery's four brands, "Yanjing", "Liquan", "Huiquan" and "Xuelu", Yanjing Brewery has a line of products positioned at different price points catering to different regional markets.

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

Striving to derive synergistic benefits from investment in China Gas

Historically, the focus of the gas business of the Guarantor has been primarily on the Beijing market. The extensive coverage of the regional businesses of China Gas provides strategic opportunities for the Guarantor to expand its business nationwide. The Guarantor and China Gas intend to jointly develop and invest in city gas projects and nationwide refilling station projects. From 1 April to 30 September 2016, China Gas secured six new city piped gas projects located in Jilin Province, Liaoning Province, Fujian Province, Henan Province and Shandong Province. The Guarantor and China Gas also intend to jointly develop and invest in gas value-added services (such as coal to gas conversion and combined cooling, heat and power distribution services in the markets where China Gas has city gas projects), and urban infrastructure facilities and services (such as sewage treatment services in the markets where China Gas has city gas projects). China Gas established a gas appliances company and a e-commerce company to develop various value-added businesses and services centering on its primary business of sales of gas, including maintenance, renovation and sale of gas appliances and the provision of comprehensive gas insurance agency service.

Re-designing the business model to accelerate expansion of sewage and water treatment projects of Beijing Water

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

Beijing Water will continue to develop new businesses such as seawater desalination and will further develop its overseas operations. Subsequent to the investment in the water distribution project in Malaysia in 2015, Beijing Water will continue to place an emphasis on the development of its business in the Southeast Asia and will evaluate business opportunities arising in the overseas market from time to time.

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

Beijing Environment is primarily engaged in solid waste treatment business after acquiring two solid waste incineration plants in 2014 and it is currently one of the solid waste treatment platforms of the Guarantor. With the rapid development of the environmental protection industry in the PRC and as waste incineration power generation becomes an optimal waste treatment method, the waste incineration power generation industry in the PRC has great potential to grow. The Group believes that waste incineration power generation will benefit from the standardisation of on-grid electricity tariff pricing policy, provisions of waste treatment subsidy and relevant preferential tax treatment, and will generate steady cash flow with stable and reliable returns. In addition, Beijing Environment intends explore related businesses such as hazardous waste disposal and food waste treatment to further diversify its businesses.

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

Business Segments

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

	Year ended 31 December		
	2014	**2015**	**2016**
	(HK$ in million)		
Revenue			
Piped gas operations	32,438.4	43,946.3	39,379.0
Brewery operations	15,151.0	14,069.4	11,589.9
Sewage and water treatment operations	—	—	—
Solid waste treatment operations	—	2,055.4	4,929.3
Corporate and others[(1)]	346.4	78.8	60.6
Total	47,935.8	60,149.9	55,958.8

	Year ended 31 December		
	2014	**2015**	**2016**
	(HK$ in million)		
Profit/(loss) after tax			
Piped gas operations	4,471.5	5,082.3	5,291.6
Brewery operations	950.6	446.7	282.6
Sewage and water treatment operations	790.0	1,077.1	1,412.5
Solid waste treatment operations	—	159.7	322.6
Corporate and others[(1)]	(806.5)	(809.9)	(670.1)
Total	5,405.6	5,955.9	6,639.2

(1): The Guarantor's corporate and others segment comprises the sale of IT related products, the provision of system integration and maintenance services and software development and consultation services, property investment and corporate income and expense items.

Natural Gas Distribution Business

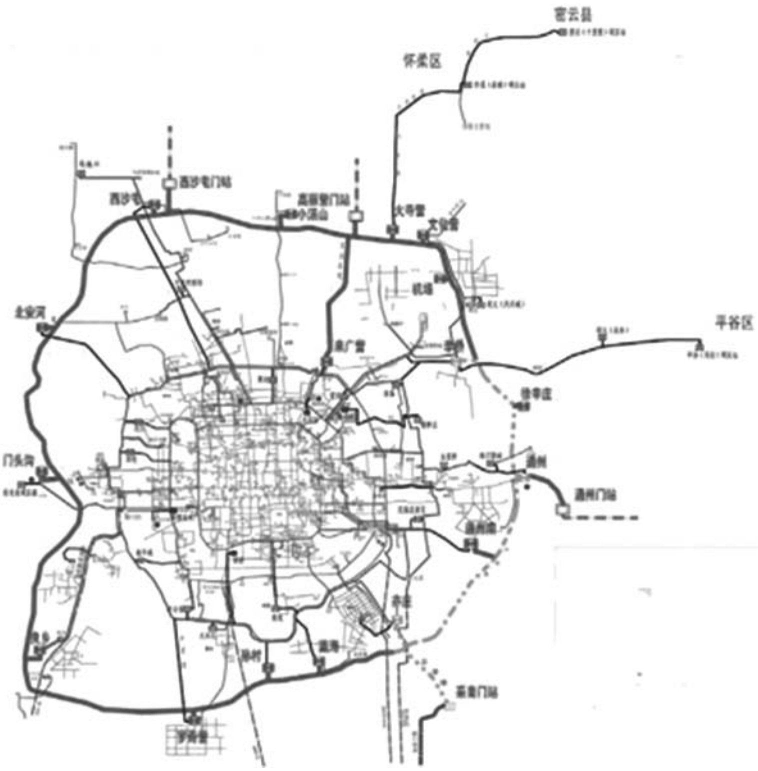
Beijing Gas Group Company Limited

The Guarantor carries out the distribution of natural gas through its wholly-owned subsidiary, Beijing Gas which is one of the largest natural gas suppliers and service providers in the PRC. In 2016, Beijing Gas recorded total gas sales volume of 14.4 billion cubic metres, an increase of 10.1 per cent over the previous year. Beijing Gas had a total of approximately 5.8 million subscribers as at 31 December 2016 including 5.7 million household subscribers and 50,000 public sector subscribers. Beijing Gas's pipelines in operation in Beijing increased to 17,430 kilometres in length as at 31 December 2016. Beijing Gas's pipeline network covers 13 provinces and cities including Heilongjiang, Liaoning, Hainan, Guangxi, Xinjiang and Shandong provinces and Beijing city.

Beijing Gas holds effective monopoly rights to distribute natural gas in Beijing for 25 years, pursuant to concession rights granted by the Beijing Municipal Government. According to the Concession Measures, the concession right of operating a natural gas network in an urban area of a city/county/province has a maximum duration of 30 years. In 2007, the Beijing Municipal Administration Commission issued the natural gas operation permit (《北京市燃氣經營許可證》) for operating the urban natural gas pipeline networks of Beijing. Upon the expiry of the concession right in 2032, the concession right is subject to re-approval by the relevant governmental authorities.

In 2014, 2015 and 2016, revenue from Beijing Gas's natural gas distribution business amounted to HK$32.4 billion, HK$44.0 billion and HK$39.4 billion respectively. Its capital expenditure for basic pipeline and gateway stations infrastructure in Beijing amounted to HK$1.5 billion, HK$3.2 billion and HK$3.0 billion in 2014, 2015 and 2016 respectively.

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



To extend and improve Beijing Gas's presence in the gas industry chain, Beijing Gas continues to extend Beijing Gas's market coverage to the suburban counties of Beijing by way of selective acquisitions and mergers with smaller companies with strong local presences, resources and experience in gas projects. In partnership with PetroChina Beijing Pipeline, Beijing Gas will continue to invest in long-distance pipeline construction.

Supply of natural gas

Beijing Gas sources its gas mainly from Changqing, one of the largest operating natural gas fields in the PRC. Beijing Gas mainly sources natural gas from the PetroChina Associate Company based on bi-annual contracts. Beijing Gas believes the transmission costs of gas from Changqing gas field are lower compared with other major gas fields because of its proximity to Beijing. In addition, Beijing also sources LNG from overseas suppliers.

Upstream and downstream integration

Through the PetroChina Beijing Pipeline, Beijing Gas is able to source gas for the Beijing, Tianjin and Hebei regions directly from gas fields in Changqing using the Shaanxi-Beijing lines. Through its alliance with the PetroChina Associate Company, Beijing Gas has been able to secure a stable source of gas at relatively competitive prices. Beijing Gas plans to continue to expand both its upstream and downstream businesses. See *"— Planned expansion*."

Pricing

From November 2015, the maximum price of natural gas at city gate serves as the benchmark price based on which natural gas suppliers and consumers will negotiate a specific price, with a cap at 1.2 times of the benchmark price. The nature gas price for fertiliser producers is set with reference to the price of the existing natural gas fixed by the NDRC. Any increase in distribution costs of natural gas for direct non-residential users are automatically passed on to the users. The provincial governments fix the residential user price which takes into account, among other things, distribution costs and alternative fuel prices. Residential user prices and adjustments are set through public consultation hearings and it usually takes four to six months for the changes to be approved.

The natural gas tariff paid for by customers reflects the city gate price required to be paid by city gas distributors, the connection fee (outside Beijing) and margin. The city gate price includes the ex-plant price plus the transportation tariff fixed by the municipal NDRC. The connection fee is mandated by the applicable provincial government.

The NDRC determines the transportation tariff for national long distance transmissions and the provincial price control bureaus regulate the transportation tariff for provincial pipelines. The transportation tariff is calculated based on cost of pipelines, distance between city gate and gas source and includes an operator margin of approximately 12 per cent.

Seasonal demand

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

Government regulation

Beijing Gas believes favourable government policies towards the natural gas industry will promote its growth. The PRC government targets raising natural gas usage in the primary energy mix to 10 per cent. by 2020 and reducing carbon emissions by 40-45 per cent. by 2020. This is expected to substantially increase the proportion of natural gas usage in the primary energy mix over the next several years. In keeping with its objectives of providing power from cleaner sources, the Beijing Municipal Government's twelfth five-year plan aims to replace 3.04GW coal-fired power units with new combined cycle gas turbines in respect of which Beijing Gas will be the sole supplier of natural gas.

Beijing Gas operates its natural gas distribution business under effective concessions and key contracts with its customers and suppliers. Beijing Gas enjoys an effective monopoly in supplying natural gas in Beijing pursuant to Beijing Gas's concession rights. If Beijing Gas were to be required to share those concession rights with other providers, or if it could not renew its gas supply concession, future sales volumes and revenue from its natural gas distribution business would be adversely affected.

Planned expansion

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

Beijing Gas has signed cooperation agreements with Datang International (through its largest shareholder and its subsidiary), Huaneng International and Huadian Operation. The Guarantor believes that Beijing Gas will be able to meet its supply requirements from PetroChina Beijing Pipeline's Shaanxi-Beijing No.3 and No.4 lines. Beijing Gas is also building the inner city infrastructure for gas supply from No.3 and No.4 pipelines and from Phase II of the Sixth Ring Road Gas Project. Beijing Gas is involved in building ancillary infrastructure facilities for the four thermal power centres in Beijing.

In addition, Beijing Gas will continue to actively implement the Clean Air Action Plan to develop markets outside Beijing by emphasising on the various gas segments including pipeline gas, LNG and CNG. By seizing the integrated opportunities of Beijing, Tianjin and Hebei, it will prioritise the implementation of city gas projects in Tianjin and Hebei and aim to establish its dominant position in the gas distribution market, thereby solidifying its market leading position in the domestic clean energy sectors. Beijing Gas will also continue to strengthen the development of the vehicle gas market. By leveraging on its market position in Beijing, Beijing Gas plans to develop new customers such as logistics enterprises.

China Gas Holdings Limited

The Guarantor has a 24.91 per cent. equity interest in China Gas. The shares of China Gas are listed on the main board of the Hong Kong Stock Exchange (stock code: 384). China Gas is a gas operator and service provider primarily engaged in the investment, construction and operation of city gas pipeline infrastructure facilities, gas terminals, storage and transportation facilities, gas logistics systems, transmission of natural gas and LPG to residential, industrial and commercial customers, construction and operation of natural gas refilling stations for vehicles as well as the development and application of technologies relating to petroleum, natural gas and LPG in China. China Gas's gas business is divided into two segments, namely the natural gas segment and the LPG segment, which cater for the needs of different customer groups and require different market development strategies. Its customers are mainly classified into residential customers, industrial and commercial customers. As at 30 September 2016, China Gas provides more than 16.1 million residential households, 107,069 industrial and commercial customers with piped natural gas services. Its other customers include CNG/LNG refilling stations.

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

As at 30 September 2016, China Gas provided piped natural gas supply in 223 cities in the PRC and had intermediate and arterial pipeline networks (excluding pipeline in the premises of its customers) of 78,653 kilometres in length; there were 290 processing stations (city-gate stations) and the connectable urban population was potentially 100,975,368 persons (approximately 31,002,516 households).

As at 30 September 2016, China Gas owned 573 natural gas refilling stations in 25 provinces in the PRC (including autonomous regions and municipalities), including 283 CNG and 290 LNG refilling stations for vehicles.

China Gas currently owns 98 LPG distribution projects. Under China Gas's LPG development strategy, midstream wholesale business forms the basis, while downstream end-user business constitutes the core of the LPG profits. China Gas is expediting the establishment of customer service call centres and improving logistics and distribution systems to enhance its service capabilities and undertaking a structural reorganisation of its non-core assets, including existing terminals and storage facilities.

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

Natural Gas Transmission Business

The Guarantor owns a 40.0 per cent. equity interest in, and jointly controls, PetroChina Beijing Pipeline which provides natural gas transmission services from the second-largest gas field in Changqing to Beijing, Tianjin and Hebei regions through Beijing Gas's Shaanxi-Beijing pipelines. PetroChina Beijing Pipeline had a natural gas transmission volume of 30.0 billion cubic metres, 32.9 billion cubic metres and 34.9 billion cubic metres in 2014, 2015 and 2016, respectively.

PetroChina Beijing Pipeline's existing three Shaanxi-Beijing pipelines give a total transmission capacity of 35.0 billion cubic metres per annum.

Each of the Shaanxi-Beijing No.1, No.2 and No.3 pipelines is approximately 900 kilometres in length and has an annual transmission capacity of 4 billion, 15 billion and 15 billion cubic metres per annum, respectively. The Shaanxi-Beijing No.1 pipeline supplies the Beijing, Tianjin, Yanshan, Canghua and Hebei regions, the No.2 pipeline supplies the main city areas in Beijing, Tianjin, Shaanxi, Hebei and Shandong and the No.3 pipeline supplies gas to the Bohai rim, Shandong, Beijing and the north-east grid of Liaoning. PetroChina Beijing Pipeline is adding the fourth Shaanxi-Beijing pipeline which is expected to be approximately 1,114 kilometres in length and has an annual transmission capacity of 25.0 billion cubic metres per annum. The No.4 pipeline is expected to commence operation by October 2017, which will supply gas to Beijing, the north-east grid of Liaoning and the Bohai rim.

Recent acquisitions of natural gas business

Subscription of shares and convertible bonds in Beijing Gas Blue Sky

In May 2016, Beijing Gas completed its investment in Beijing Gas Blue Sky by way of subscription of shares and convertible bonds. In November 2016, Beijing Gas converted part of the convertible bonds in exchange for shares in Beijing Gas Blue Sky. Following the subscriptions and conversion, Beijing Gas Blue Sky became the largest single shareholder of Beijing Gas Blue Sky. As at the date of this Offering Circular, Beijing Gas holds 26.93 per cent. of the issued share capital and HK$130,000,000 worth convertible bonds of Beijing Gas Blue Sky.

In addition, Beijing Gas conditionally agreed to sell to Beijing Gas Blue Sky its 51 per cent. equity interest in Beijing Gas Group (Teng County) Co., Ltd ("**Teng County Project Company**") at an aggregate consideration of HK$152,000,000, which shall be satisfied by the new Share issued by Beijing Gas Blue Sky. The Teng County Project Company is principally engaged in distribution of natural gas to the industrial parks, residential and commercial users in the area of Teng County of Guangxi Province in the PRC. As at the date of the Offering Circular, the disposal of the Teng County Project Company is not completed and the completion is subject to certain conditions precedent.

Beijing Gas Blue Sky is principally engaged in sale and distribution of natural gas and other related products in the PRC, with an emphasis on the mid to downstream side of the natural gas industry value chain. Its business encompasses (i) construction and operation of CNG and LNG refilling stations for vehicles; (ii) construction of natural gas pipelines and operation of city gas projects by providing piped gas; (iii) direct supply of LNG to end-users; and (iv) trading and distribution of CNG and LNG. As at 31 December 2016, Beijing Gas Blue Sky owned a total of 34 gas refilling stations for vehicles in Hainan Province, Anhui Province, Shandong Province, Guizhou Province. Beijing Gas Blue Sky also owned city gas projects in Liaoning Province and Hubei Province. The geographical coverage of trading and distribution business operated by Beijing Gas Blue Sky includes Shandong Province, Hainan Province, Anhui Province and Zhejiang Province. The investment in Beijing Gas Blue Sky represents a valuable opportunity for the Group to further develop the natural gas businesses domestically and to participate in the development of existing natural gas projects of Beijing Gas Blue Sky. The Guarantor believes this can further enhance Beijing Gas's influence and solidify its leading industry position in the natural gas business.

Acquisition of shares in public joint-stock company Verkhnechonskneftegaz in Russia

On 7 November 2016, Beijing Gas entered into a conditional share sale agreement to acquire approximately 20 per cent. of the share capital of Verkhnechonskneftegaz, a public joint-stock company incorporated in the Russian Federation, at the purchase price of US$1,100 million (subject to completion adjustment). As at the date of the Offering Circular, the Rosneft Oil Acquisition is not completed and the completion is subject to certain conditions precedent including regulatory and government approvals.

Verkhnechonskneftegaz holds a licence to develop the Verkhnechonsk oil, gas and condensate field in the Russian Federation. Verkhnechonskneftegaz is mainly engaged in exploring, appraising, developing, producing and marketing oil, gas, and condensate within the field. The current C1+C2 recoverable reserves of the field stand at 173 million tons of and gas condensate and 115 billion cubic meters of natural gas. The oil production level as at 2016 is 8.5 million tons per year. Leveraging on the significant gas reserves possessed by Verkhnechonskneftegaz in East Siberia, the parties will explore in good faith a possibility to supply the gas to the PRC. Pursuant to the share sale agreement, Beijing Gas shall have the first of right of refusal for the supply of natural gas by Verkhnechonskneftegaz to the PRC in the amount of 10 billion cubic meters per annum.

The Rosneft Oil Acquisition represents a strategic opportunity for the Group to expand its business along the value chain into the upstream sector of oil and gas supply through obtaining a share in one of East Siberia's largest producing fields with a developed infrastructure. It has strategic importance to the Group and it further enhances the Group's industry position in the gas distribution sector.

Brewery Business

The Guarantor has a 45.79 per cent. effective interest in Yanjing Brewery, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000729). In 2016, nationwide beer sales volume of Yanjing Brewery was 4.5 billion litres and the sales volume of Yanjing Brewery's "1+3" brands ("Yanjing" plus "Liquan", "Huiquan" and "Xuelu" brands) was 4.1 billion litres, representing approximately 91.93 per cent. of the total sales volume. Yanjing Brewery has a diverse portfolio of brands targeting different regions and price points. "Yanjing" beer is a national core brand and falls into the high-end to medium-price category. "Liquan" beer is mainly marketed and distributed in Guangxi Province in southern China, "Huiquan" beer in Fujian Province in eastern China and "Xuelu" beer in Inner Mongolia in northern China. Other than Yanjing, all of its other products are mass market products.

Products

Yanjing Brewery produces over 100 types of beer and other beverages, such as mineral water, soft drinks, juices and wine, for consumption in the PRC and overseas markets. Yanjing Brewery increases its production capacity by organic growth as well as through selective acquisitions.

Yanjing Brewery's principal brewery product is "Pilsner Beer" which is brewed primarily to satisfy the demand of Chinese consumers. Yanjing Brewery produces beer of 8, 10, 11 and 12 degrees plato (which measures the sugar content of the beer) and its key products include the "11 Degree Light" beer, "10 Degree Dry" beer and "11 Degree" beer. Yanjing Brewery's products have won numerous national and international awards. Also, it participated as a sponsor in the 2008 Olympic Games.

Yanjing Brewery has been focusing on the sales of its mid- to high-end beers in the recent years. In 2016, the sales volume of Yanjing Brewery's beer products with unit price over RMB2,500 per ton reached 2.3 billion litres, representing a year-on-year increase of approximately 5.5% over the previous year, and contributed to approximately 51.1% of the total sales volume of its beer products.

Increasing raw material prices, labour costs and fuel consumption all contribute to the price of finished beverage products. In the past, Yanjing Brewery has been able to pass on increased production costs to its customers without corresponding reductions in sales volumes, but it may not always be able to pass through such costs in the future.

Production facilities

In 2016, Yanjing Brewery operated 39 breweries across 18 provinces in the PRC with a total annual designed production capacity of approximately 9.6 billion litres. Yanjing Brewery intends to reorganise its existing facilities, acquire new breweries and establish new brewery facilities and bottling plants to achieve production expansion targets in the future.

Yanjing Brewery's brewery distribution and production facilities are set out below in shaded regions in the PRC:

Raw materials

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

Production and quality control

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

Sales, marketing and distribution

Although Beijing is Yanjing Brewery's primary market, Yanjing Brewery also supplies beer in Guangxi, Fujian, Inner Mongolia, Hunan, Sichuan, Xinjiang and Shandong provinces in the PRC, south east Asia, Europe and U.S. Yanjing Brewery utilises a three-tier distribution structure that includes a network of distributors, wholesalers and retailers. Yanjing Brewery's local distributor network includes state-owned cigarette and alcohol distribution companies, collective distributors and individual wholesalers. Yanjing Brewery also sells brewery products directly to restaurants and bars. The Guarantor believes Yanjing Brewery's diversified distribution network maximises product exposure and minimises dependence on any single wholesaler or distributor. Yanjing Brewery chooses distributors in each market that will devote attention and resources to the promotion and sale of its products in developing such markets.

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

Competition

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

Water and Environmental Business

The Guarantor operates its water and environmental business through its 43.76 per cent. owned interest in Beijing Water, whose principal businesses include operations in water treatment business, construction and technical services for the water environmental renovation. The shares of Beijing Water are listed on the main board of the Hong Kong Stock Exchange (stock code: 371). As at 31 December 2016, the coverage of water plants owned by Beijing Water extended to 19 provinces, four autonomous regions and two municipalities all across the PRC as well as in Singapore, Malaysia and Portugal.

For the year ended 31 December 2014, 2015 and 2016, Beijing Water's revenue amounted to HK$8,925.9 million, HK$13,503.0 million and HK$17,354.8 million, respectively. Profit attributable to shareholders were HK$1,794.4 million, HK$2,455.4 million and HK$3,227.0 million in 2014, 2015 and 2016, respectively. Total assets reached HK$51,640.8 million, HK$64,491.7 million and HK$81,047.3 million and as at 31 December 2014, 2015 and 2016, respectively.

As at 31 December 2016, Beijing Water entered into service concession arrangements for a total of 452 water plants including 335 sewage treatment plants, 108 water distribution plants, eight reclaimed water treatment plants and one seawater desalination plant. The total daily design capacity for Beijing Water increased from 24,623,250 tons as at 31 December 2015 to 27,168,044 tons as at 31 December 2016, representing an increase of 10.3 per cent. as compared with 2015. The aggregated daily design capacity for new projects secured during 2016 was 4,547,994 tons; including BOT projects of 359,000 tons, TOT projects of 348,000 tons, PPP of 3,037,794 tons, entrustment operation projects of 342,000 tons and 461,200 tons through merger and acquisition. During 2016, the contract for entrusted operation of sewage treatment projects with aggregated daily design capacity of 792,200 tons was completed and expired. As such, the net increase in daily design capacity during 2016 was 3,755,794 tons.

The following table sets forth certain information in relation to Beijing Water's sewage and reclaimed water treatment services and water distribution services as at or for the year ended 31 December 2016:

	Number of plants	**Design capacity**	**Actual processing volume[(1)]**
		(Tons per Day)	**(Tons (in million))**
Sewage and reclaimed water treatment services:			
Mainland China			
Southern China	43	3,259,200	1,079.9
Western China	49	1,624,500	493.4
Shandong	29	1,269,000	339.2
Eastern China	51	2,950,750	846.2
Northern China	40	1,351,000	359.8
	212	10,454,450	3,118.5
Overseas	25	283,200	31.5
Subtotal	237	10,737,650	3,150.0
Water distribution services:			
Mainland China	59	5,704,400	1,041.4
Overseas	13	36,000	12.7
Subtotal	72	5,740,400	1,054.1
Total	309	16,478,050	4,204.1

Note:

(1) Excluded entrustment operation contracts

Sewage and reclaimed water treatment services

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

Mainland China

As at 31 December 2016, Beijing Water had 207 sewage treatment plants and five reclaimed water plants in operation in Mainland China. The total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached to 9,957,250 tons and 497,200 tons, receptively. In 2016, the average daily processing volume was 8,857,006 tons and average daily treatment rate is 86 per cent. The actual average contracted tariff charge of water treatment was approximately RMB1.0 per ton for water plants. The actual aggregated processing volume in 2016 was 3,118.5 million tons. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

(a) *Southern China*

Sewage treatment plants of Beijing Water in southern China were mainly located in Guangdong Province, Hunan Province, Fujian Province and Shaanxi Province. As at 31 December 2016, Beijing Water operated 43 sewage treatment plants in southern China with a combined daily design sewage treatment capacity of 3,259,200 tons, representing an increase of 181,300 tons per day, or six per cent., as compared with 3,077,900 tons per day in 2015. In 2016, the actual aggregated processing volume was 1,079.9 million tons.

(b) *Western China*

Sewage treatment plants of Beijing Water in western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 31 December 2016, Beijing Water operated 49 sewage treatment plants in western China with a combined daily design sewage treatment capacity of 1,624,500 tons, representing an increase of 59,000 tons per day, or four per cent., as compared with 1,565,500 tons per day in 2015. In 2016, the actual aggregated processing volume was 493.4 million tons.

(c) *Shandong*

As at 31 December 2016, Beijing Water operated 29 sewage treatment plants in the Shandong region with a combined daily design capacity of 1,269,000 tons, representing an increase of 77,000 tons per day, or 6.5 per cent., as compared with 1,192,000 tons per day in 2015. In 2016, the actual aggregated processing volume was 339.2 million tons.

(d) *Eastern China*

Sewage treatment plants of Beijing Water in eastern China were mainly located in Zhejiang Province, Jiangsu Province and Anhui Province. As at 31 December 2016, Beijing Water operated 51 sewage treatment plants in eastern China with a combined daily design capacity of 2,950,750 tons, representing an increase of 927,500 tons per day, or 46 per cent., as compared with 2,023,250 tons per day in 2015. In 2016, the actual aggregated processing volume was 846.2 million tons.

(e) *Northern China*

Sewage treatment plants of Beijing Water in northern China were mainly located in Liaoning Province and Beijing. As at 31 December 2016, Beijing Water operated 40 sewage treatment plants in northern China with a combined sewage treatment capacity of 1,351,000 tons per day, representing an increase of 245,000 tons per day, or 22 per cent. as compared with 1,106,000 tons per day in 2015. In 2016, the actual aggregated processing volume was 359.8 million tons.

Overseas

As at 31 December 2016, Beijing Water had 24 sewage treatment plants in Portugal, one reclaimed water plant in Singapore and one underground sewage water plant in Malaysia. The total daily design sewage treatment capacity in operation for 2016 was 283,200 tons. In 2016, the actual aggregate processing volume was 31.5 million tons.

Water distribution service

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

Mainland China

As at 31 December 2016, Beijing Water had 59 water distribution plants in operation. The total daily design capacity in operation was 5,704,400 tons. The plants were mainly located in Guizhou Province, Fujian Province, Guangdong Province, Hunan Province, Hebei Province, Shandong Province, Henan Province and Guangxi Province and Inner Mongolia Autonomous Region. The actual average contracted tariff charge of water distribution is approximately RMB1.9 per ton. In 2016, the actual aggregated processing volume was 1,041.4 million tons.

Overseas

As at 31 December 2016, the Group had 13 water distribution plants in Portugal with a total daily design water distribution capacity in operation of 36,000 tons. In 2016, the actual aggregated processing volume for the year was 12.7 million tons.

Service concession arrangements

A substantial part of the Beijing Water's revenue for its water treatment business is generated from the provision of sewage and reclaimed water treatment and water distribution services under service concession arrangements.

Beijing Water has entered into a number of service concession agreements with certain government authorities in the PRC on a BOT or a TOT basis in respect of its sewage treatment and water distribution projects. Beijing Water typically secures concession arrangements through carrying out the construction of water facilities and acquiring the operating concession, and through acquiring other water companies with existing concession arrangements. These service concession arrangements generally involve Beijing Water as an operator of the relevant sewage treatment and water distribution plants responsible for operating and maintaining the sewage treatment and water distribution plants at a specified level of serviceability on behalf of the relevant government authorities for periods ranging from 20 to 40 years. Under the service concession agreements, Beijing Water is generally entitled to use all the property, plant and equipment of the sewage treatment and water distribution plants whilst the relevant government authorities as grantors will control and regulate the scope of services Beijing Water provides, and retains the beneficial entitlement to any residual interest in the sewage treatment and water distribution plants at the end of the term of the service concession periods.

Sewage treatment

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

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

Construction services for the water environmental renovation

Beijing Water's construction projects primarily comprise comprehensive renovation projects and BOT projects:

Construction services for comprehensive renovation projects

Beijing Water provides construction services on a comprehensive renovation basis for the design, construction and installation of water or sewage treatment facilities and pipeline networks for its customers at a fixed contract price (subject to agreed variation orders). Upon completion, Beijing Water delivers the project to its customers for their operation and bears no further responsibility for the maintenance or repair of the facilities. Beijing Water's comprehensive renovation projects typically take between 12 and 24 months to complete. Beijing Water recognises revenue from its comprehensive renovation projects on the basis of the percentage of completion method commencing when a legally binding contract is executed and when the total construction costs of the facilities under development can be reliably estimated. The Group's comprehensive renovation projects primarily involve the construction of an intercepting canal and its ancillary facilities, water environmental renovation facilities, pipeline networks and other infrastructure. As at 31 December 2016, Beijing Water had 20 comprehensive renovation projects under construction. These projects are mainly located in Beijing Liangshuihe, Beijing Xiaotaihouhe, Henan Luoyang, Foshan Gaoming, Foshan Sanshui, Yunnan Yuxi, Sichuan Suining, Inner Mongolia Wuhai and Malaysia Terengganu.

BOT projects

Beijing Water has entered into a number of service concession contracts on a BOT basis for its sewage treatment business. For BOT projects, Beijing Water typically designs and constructs sewage and water treatment facilities and operates the facilities for a contractually agreed period of up to 30 years. Beijing Water bears all relevant design, construction and operating costs of the treatment facilities and does not receive payments from customers during the construction stage of the projects. Upon commencement of operations, Beijing Water receives regular, usually monthly, payments from the local government based on a contractually agreed tariff and the volume of water. Beijing Water is responsible for all repair and maintenance costs during the term of the concession. At the end of the agreed concession period, Beijing Water is required to transfer the treatment facilities to the local government, but Beijing Water may be reappointed under a bidding process to continue to operate the facilities on an operate-and-manage basis.

BOT projects require substantial investments for the construction of the treatment facilities. Beijing Water funds its BOT projects through a combination of internal resources and external borrowings.

As at 31 December 2016, water plants under construction on a BOT basis are mainly located in Beijing, Shandong, Jiangsu, Xinjiang and Henan Provinces.

Concession periods in respect of BOT projects usually have a term of up to 30 years. During the concession period Beijing Water is responsible for the repair and maintenance of the facilities. Once operations have commenced Beijing Water receives a monthly tariff from its customers for the term of the concession period.

Technical services and sales of machineries for the water environmental renovation

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

Solid Waste Treatment Business

The Guarantor operates its solid waste treatment business through two platforms, namely Beijing Environment and BEHET. Currently, the Guarantor is ranked among the top ten domestic solid waste treatment enterprises in the PRC.

The Group's solid waste operation capacity increased substantially in 2016 as a result of the acquisition of EEW project in Germany. See "*— Recent acquisition of solid waste treatment business*". As at 31 December 2016, the Group had a waste incineration power generation capacity of 27,961 tons per day. In 2016, the Group completed the treatment of solid waste of 4.9 million tons in China. It accomplished an on-grid power generation of 636 million kilowatt per hour ("**kWh**").

BEHET

In the first half of 2015, BEHET won a tender for a household waste treatment project located in Huairou district of Beijing. This project is currently under construction. It will be operated on a PPP basis with a household waste treatment capacity of 600 tons per day. In 2016, BEHET commenced construction of phase 1 of a household waste treatment project located in Zhaodong city of Heilongjiang Province. This project will be operated on a BOT basis with a household waste treatment capacity of 1,000 tons per day (including 600 tons per day for phase 1). In 2015, BEHET acquired a hazardous waste and medical waste treatment project located in Changzhou city of Jiangsu Province.

This project is operated on a Build-Own-Operate ("**BOO**") basis. It has a treatment capacity of 11,500 tons per year in operation and has a further treatment capacity of 30,000 tons per year under construction.

As at 31 December 2016, BEHET held a total of eight solid waste treatment projects, comprising (i) five household waste projects including the Beijing Huairou Project, Heilongjiang Zhaodong Project and other three projects located in Xianyang of Shaanxi Province, Siping of Jilin Province and Wuhan of Hubei Province; (ii) a medical waste project located in Beijing Gaoantun; and (iii) a hazardous waste project located in Taiyuan of Shanxi Province; and (iv) the Jiangsu Changzhou Project. In 2015 and 2016, BEHET achieved an operating revenue of HK$393 million and HK$390 million, respectively.

Beijing Environment

The Guarantor holds a 50.40 per cent. equity interest in Beijing Environment. The shares of Beijing Environment are listed on the main board of the Hong Kong Stock Exchange (stock code: 154). In 2014, 2015 and 2016, Beijing Environment achieved an operating revenue of HK$108.5 million, HK$1,246.7 million and HK$402.5 million and realised a profit after tax of HK$5.1 million, HK$84.0 million and HK$126.2 million, respectively.

Beijing Environment has been focused on solid waste treatment business after acquiring two solid waste incineration companies in April 2014, namely KCS Taian Investments Company Limited and KCS Changde Investments Company Limited, whose principal activities are the investment and operation of two WTE projects in Shandong Province and Hunan Province. The project in Shandong Province is operated on a BOO basis for a licensed period of 30 years until 2038 and has a household waste treatment capacity of 1,000 tons per day. The project in Hunan Province is operated on a BOT basis for a licensed period of 27 years until 2037 and has a household waste treatment capacity of 1,000 tons per day.

In the second half of 2014, Beijing Environment established a 99.0 per cent. equity owned subsidiary for the investment and operation of a solid waste incineration plant in Haidian district of Beijing (the "**Haidian Project**"). By the end of December 2014, Beijing Environment successfully entered into a licensed operation agreement in relation to the Haidian Project. The total investment amount of the Haidian Project amounted to RMB1,525 million and it is operated on a BOT basis for a licensed period of 30 years. The Haidian Project has a household waste treatment capacity of 2,500 tons per day, including household waste incineration of 2,100 tons per day and kitchen waste biochemical treatment of 400 tons per day. The commercial operation of the Haidian Project is currently expected to commence in the second half of 2017.

Beijing Environment successfully completed the spin-off of its IT services business in the first half of 2016, and focused on development of solid waste treatment business. To accord with the Group's strategic intent to layout Beijing Environment as the flagship platform of the solid waste treatment business under BE Group, the Guarantor completed the asset injection of five major household waste treatment projects and one hazardous and medical waste treatment project (the "**Injected Projects**") into Beijing Environment in October 2016 for an aggregate consideration of RMB1.9 billion, which was satisfied by the issue of convertible bonds due 2021 by Beijing Environment to the Guarantor.

The following table sets forth a summary of the Injected Projects transferred by the Guarantor to Beijing Environment:

Project Name	Project Type	Location	Operation Mode and Licensed Period	Waste treatment capacity	Operation Status	Effective percentage owned by the Group (per cent.)
北京高安屯垃圾焚燒項目 (Beijing Gaoantun WTE Project)	Household waste treatment project	Chaoyang district of Beijing	BOT basis for a licensed period of 30 years from January 2005 to December 2034.	1,600 tons per day	In commercial operation	84.9
張家港市生活垃圾焚燒發電廠項目 (Zhangjiagang Household WTE Plant Project)	Household waste treatment project	Zhangjiagang of Jiangsu Province	Phase 1: BOO basis for a licensed period of 30 years from 2008 to 2038	Phase 1: 600 tons per day	Phase 1: Commenced trial operation in February 2010	100.0
			Phase 2: BOO basis for a licensed period of 30 years from 2014 to 2044	Phase 2: 300 tons per day	Phase 2: Commenced trial operation in February 2016	
哈爾濱雙琦垃圾焚燒發電BOT項目 (Ha'erbin Shuangqi WTE BOT Project)	Household waste treatment project	Ha'erbin of Heilongjiang Province	BOT basis for a licensed period of 30 years from April 2013 to April 2043	Phase 1: 400 tons per day	Phase 1: In commercial operation	80.0
				Phase 2: 1,200 tons per day	Phase 2: Commenced trial operation in May 2016	
江蘇省沭陽縣垃圾焚燒發電廠項目(Jiangsu Shuyang WTE Plant Project)	Household waste treatment project	Shuyang county of Jiangsu Province	BOT basis for a licensed period of 30 years from March 2015 to March 2045	600 tons per day	Commenced trial operations in January 2015	100.0
文昌市生活垃圾焚燒發電廠BOT項目 (Wenchang Household WTE Plant BOT Project)	Household waste treatment project	Wenchang of Hainan Province	BOT basis for a licensed period of 15 years from July 2012 to June 2027	225 tons per day	Commenced trial operations in July 2012	100.0
湖南省衡陽危險廢物處置中心項目(Hunan Hengyang Hazardous Waste Treatment Project)	Hazardous waste and medical waste treatment project	Hengyang of Hunan Province	BOT basis for a licensed period of 25 years from the completion of the construction of the plant	35,000 tons per year	Commenced trial operations in May 2013	65.0

Business model of household waste treatment project

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

Business model of hazardous waste and medical waste treatment project

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

Recent acquisition of solid waste treatment business

Acquisition of the equity interest in EEW in Germany

In March 2016, through market bidding, the Group acquired the entire stake in EEW Holding GmbH and M+E Holding GmbH & Co. KG (which together holds 100.0 per cent. equity interest of EEW), EEW is the largest waste incineration power enterprise in Germany. It is by far the largest overseas merger and acquisition project by a Chinese enterprise in the solid waste treatment sector. It is also the largest merger and acquisition project by a Chinese enterprise in Germany. EEW recorded an operating revenue of HK$3.8 billion from 2 March 2016, the date of the completion of the acquisition, to 31 December 2016, and it achieved actual waste treatment volume of 4.6 million tons and sale of electricity of 1,749 million kWh in 2016.

EEW is a leading energy-from-waste company in Europe headquartered in Germany, with its principal business in the supply of electricity, steam and heat from waste. EEW operates a portfolio of 18 energy-from-waste plants located in Germany and neighbouring countries. With total waste treatment volume of approximately 4.4 million tons in 2015, EEW is a leading German energy-from-waste company with an approximately 17 per cent. market share in Germany. The acquisition of EEW represents an opportunity for the Group to expand its operational scale and consolidate and enhance its industry position in the solid waste treatment business. Capitalizing on the substantial industry experience of EEW as a leading market player in Europe, the Group expects to improve its overall solid waste treatment standard by leveraging on EEW's advanced technology and techniques and comprehensive system.

Employees

As at 31 December 2016, the Guarantor employed approximately 48,000 employees, substantially all of whom are located in the PRC and Hong Kong. Staff benefits include salaries, provident fund, insurance and medical cover, housing and share option schemes. The Guarantor believes its employees are critical to the Guarantor's success and the Guarantor is committed to investing in the development of such employees through continuing education and structured training, as well as the creation of opportunities for career growth.

Environmental Compliance

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

Government Regulation

The Guarantor's businesses are subject to various laws and regulations in the jurisdictions in which it operates. The Guarantor's properties are subject to routine inspections by government officials with regard to various safety and environmental issues. The Guarantor believes it is in compliance in all material respects with government regulations currently in effect in the jurisdictions in which the Guarantor operates. The Guarantor is not aware of significant problems with respect to compliance with government regulations in relation to the Guarantor's operations which could have a material adverse effect on the Guarantor's properties or operations, nor is the Guarantor aware of any pending government legislation that could have a material adverse effect on the Guarantor's properties or operations.

Insurance

The Guarantor is covered by insurance policies for losses from fire, flood, riot, strike, malicious damage, other material damage to property, business interruption and public liability. The Guarantor believes its properties are covered with adequate insurance provided by reputable independent insurance companies in the relevant jurisdictions and with commercially reasonable deductibles and limits on coverage, which are normal for the type and location of the properties to which they relate. Notwithstanding such insurance coverage, damage to the buildings, facilities, equipment or other properties as a result of occurrences such as fire, floods, earthquake, water damage, explosion, power loss, typhoons, nuclear accidents and other natural disasters or terrorism, could potentially have a material adverse effect on the Guarantor's financial condition and results of operation.

Property

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

Litigation

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

DIRECTORS AND MANAGEMENT

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

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

Name	Age	Title
WANG Dong	51	Executive Director and Chairman of the Board
HOU Zibo	51	Executive Director and Vice Chairman of the Board
ZHOU Si	60	Executive Director, Vice Chairman of the Board and Chief Executive Officer
LI Fucheng	62	Executive Director and Vice Chairman of the Board
LI Yongcheng...........	55	Executive Director and Vice Chairman of the Board
E Meng	58	Executive Director and Executive Vice President
JIANG Xinhao	52	Executive Director and Vice President
TAM Chun Fai	55	Executive Director, Chief Financial Officer and Company Secretary
WU Jiesi	65	Independent Non-executive Director
LAM Hoi Ham	78	Independent Non-executive Director
FU Tingmei	50	Independent Non-executive Director
SZE Chi Ching	77	Independent Non-executive Director
YU Sun Say	78	Independent Non-executive Director
MA She	60	Independent Non-executive Director

The biographies of our executive directors and independent non-executive directors and senior management are as follows:

Executive Directors

WANG Dong, aged 51, is the Chairman of the Guarantor and BE Group. Mr. Wang graduated from Mining Mechanical Engineering Faculty of Beijing Institute of Iron and Steel in 1986, holds a master degree in Public Administration from People's University of China and the title of Senior Engineer. Mr. Wang has held various senior positions in many large and medium size state-owned enterprises. From 2001 to 2008, Mr. Wang served as the Deputy General Manager, subsequently the Executive Deputy General Manager and finally the Chairman of BBMG Group Company Limited. From 2008 to 2009, he served as Head of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. Mr. Wang has extensive experience in corporate management, finance and state-owned assets supervision. Mr. Wang joined the Group in August 2009.

HOU Zibo, aged 51, is a Vice Chairman of the Guarantor. Mr. Hou also serves as Vice Chairman and General Manager of BE Group. Mr. Hou graduated from the School One of Ministry of Aerospace Industry with the specialty in Structural Mechanics and China Europe International Business School with the specialty in Business Administration; possesses a master degree in engineering, an MBA degree and the title of Professor-grade Senior Engineer. He was Deputy Director of Institute 702 of Ministry of Aerospace Industry and participated in many science and research projects of the state. Subsequently, Mr. Hou acted as Director and Deputy General Manager of Beijing Jingcheng Machinery Electric Holding Co., Ltd. From 2005 to 2010, he was Deputy Director of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. Mr. Hou has extensive experience in state-owned assets management, corporate assets management and capital operations. Mr. Hou joined the Group in March 2012.

ZHOU Si, aged 60, is a Vice Chairman and the CEO of the Guarantor. Mr. Zhou is also Vice Chairman of BE Group, as well as Chairman of the Board of Directors and Executive Director of China Gas. Mr. Zhou received a bachelor's degree in science (Physics) from Capital Normal University in 1982, an MBA degree from school of Economics and Management, Tsinghua University in 1998 and possesses the title of Senior Economist. From 1984 to 2003, he worked with Comprehensive Planning Department of Urban Management Commission of Beijing Municipality as Chief Officer, Deputy Director and Director and later worked as Deputy Director of Urban Management Commission of Beijing Municipality. From January 2011 to January 2014, he served as Chairman and Executive Director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Zhou has extensive experience in urban management, economics, finance and enterprise management. Mr. Zhou joined the Group in June 2005.

LI Fucheng, aged 62, is a Vice Chairman of the Guarantor. Mr. Li previously served as the Vice Chairman and Vice General Manager of BE Group. During his tenure with Yanjing Beer Factory since 1983, he had held various positions including Deputy Secretary, Deputy Director and Director, etc and is currently the Chairman of Yanjing Brewery. Mr. Li has extensive experience in the brewery industry. Mr. Li joined the Group in April 1997.

LI Yongcheng, aged 55, is a Vice Chairman of the Guarantor. Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master's degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd. He is currently Vice Chairman and Executive Deputy General Manager of BE Group, and is also Chairman and Executive Director of Beijing Water. Mr. Li possesses extensive experience and professional expertise in the public utilities industry, and also has plenty of experience in enterprise operations and capital operations. Mr. Li was Vice President of the Guarantor from August 2007 to March 2011, and subsequently re-joined the Guarantor as Executive Director in March 2014 and was re-designated as Executive Director and Vice Chairman in March 2016.

E Meng, aged 58, is an Executive Vice President of the Guarantor. Mr. E also serves as the Vice General Manager and CFO of BE Group, the Chairman and Executive Director of Beijing Environment, and the Vice Chairman and Executive Director of Beijing Water. Mr. E graduated from China Science and Technology University with a master's degree in engineering and subsequently obtained an EMBA degree from The Hong Kong University of Science and Technology. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the Deputy Director of Beijing New Technology Development Zone and concurrently acting as the Director of the Department of Financial Auditing, the General Manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the Deputy Director of the State-owned Assets Management Office of Beijing Haidian District. From September 2004 to August 2015, Mr. E was Independent Non-executive Director of New Silkroad Culturaltainment Limited (formerly known as JLF Investment Company Limited; stock code: 472). Mr. E has extensive experience in economics, finance and enterprise management. Mr. E joined the Group in November 1997.

JIANG Xinhao, aged 52, is a Vice President of the Guarantor. Mr. Jiang also serves as Vice General Manager of BE Group, Executive Director of Beijing Water as well as Non-executive Director of China Gas. Mr. Jiang graduated from Fudan University in 1987 with a bachelor's degree in law, then he served as a Policy Analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. In 1992, he was granted a master's degree in law. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a Deputy General Manager of Jingtai Finance Company in Hong Kong, and subsequently a Director and Vice President of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a Director and the Chief Executive Officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a Manager of the investment development department of Beijing Holdings Limited and a General Manager of Beijing BHL Investment Center between May 2000 and February 2005. From January 2011 to June 2016, Mr. Jiang was an Executive Director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Jiang has extensive experience in economics, finance and corporate management. Mr. Jiang joined the Group in February 2005.

TAM Chun Fai, aged 55, is the Chief Financial Officer and Company Secretary of the Guarantor. Mr. Tam also serves as the Independent Non-executive Director of Hi Sun Technology (China) Limited (stock code: 818) and KWG Property Holding Limited (stock code: 1813). Mr. Tam graduated from the Hong Kong Polytechnic University with a bachelor's degree in accountancy and is a regular member of Chartered Financial Analyst and a member of Hong Kong Institute of Certified Public Accountants. Mr. Tam has extensive experience in auditing and corporate advisory services with major international accounting firms. He was involved in floatation and audit work of a wide variety of businesses, including electronics, electrical appliances, athletic shoes manufacturing, banking, insurance, securities and property development. Mr. Tam joined the Group in April 1997 and has been involved in 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 enrich his experience in corporate governance and compliance work of listed companies in Hong Kong.

Independent Non-executive Directors

WU Jiesi, aged 65, holds a doctorate degree in Economics. Mr. Wu also serves as Independent Non-executive Director of China Taiping Insurance Holdings Company Limited (stock code: 966), China Citic Bank International Limited as well as Industrial and Commercial Bank of China (Asia) Limited; Non-executive Director of Shenzhen Investment Limited (stock code: 604) and Silver Base Group Holdings Limited (stock code: 886); and Independent Director of China Life Franklin Asset Management Co., Limited. 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, the Honorary President of Guangdong Investment Limited and Guangdong Tannery Limited, and the managing director and chief executive officer of Hopson Development Holdings Limited. From September 2005 to July 2011, he was Independent Non-executive Director of China Merchants Bank Co., Ltd. (stock code: 3968). Mr. Wu was Non-executive Director and Vice Chairman of China Aoyuan Property Group Limited (stock code: 3883), Non-executive Director of China Water Affairs Group Limited (stock code: 855), and Independent Director of China Merchants Securities Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code: 600999). He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

LAM Hoi Ham *Justice of Peace*, aged 78, graduated from the faculty of economics of The University of Hong Kong, is the founder of the accounting firm H H Lam & Co. and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lam was granted the Medal of Honour by The Hong Kong Government in 1994 and was appointed a Justice of the Peace in 1997. Mr. Lam previously served as a Standing Committee member of the 10th and 11th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China of Beijing City and currently serves as its Senior Consultant. He is now 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.

FU Tingmei, aged 50, has extensive experiences in law, investment, finance and business management. Mr. Fu graduated from the University of London with a master's degree and a doctorate degree in Law in 1989 and 1993, respectively. Between 1992 and 2003, he conducted many corporate finance transactions in investment banking firms based in Hong Kong, including serving as a director of Peregrine Capital Limited, and a deputy managing director and subsequently a managing director of BNP Paribas Peregrine Capital Limited. Mr. Fu is currently engaged in private investment business. He is currently also an independent non-executive director of CPMC Holdings Limited (stock code: 906) and Guotai Junan International Holdings Limited (stock code: 1788), both listed on the Stock Exchange. Mr. Fu joined the Group in July 2008.

SZE Chi Ching *Justice of Peace*, aged 77. Mr. 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 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 committee member of China Federation of Literary, consultant of China Calligraphers Association, chairman of Hong Kong Branch of Chinese Calligraphers Association, chairman of the board of Hang Tung Resources Holding Limited, and honorary president of the Hong Kong Fujian Chamber of Commerce. He has been appointed as vice chairman and a visiting professor of Huaqiao University, a part-time professor of the Chinese Department of Xiamen University, consulting professor of Peking University and executive director of the Board of Trustees of Jimei University, among other positions. Mr. Sze joined the Group in March 2013.

YU Sun Say *G.B.M., J.P.*, aged 78. 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) and Wong's International Holdings Limited (stock code: 99), 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.

MA She, aged 60, graduated from Beijing Foreign Studies University with a major in French, and holds a Master's Degree in Law. He received his internship in International Monetary Fund and National School of Administration (Ecole Nationale d'Administration) in France. In 1988, Mr. Ma began to work with the European Department of the Ministry of Foreign Trade and Economic Co-operation of the P.R.C. and the Chinese Embassy in France. From 2003 to 2011, he was Vice Director-General of the European Department of the Ministry of Foreign Trade and Economic Co-operation of the P.R.C., Vice Director-General of the European Department of the Ministry of Commerce of the P.R.C. and Counsellor, Commercial Consulate of Chinese Embassy in France. Mr. Ma successively participated in and presided over several international negotiations on China-EU textile trade issues, intellectual property issues and China's market economic position, and also engaged himself in the organisation and coordination of the Trade Ministers Conference of G20 and other large-scale international conferences. During this period, he also participated in the coordination of many Chinese enterprises' major investment projects in Europe. Mr. Ma has sound knowledge of international economic and trade co-operations, international industrial policies, laws and regulations as well as international negotiation rules. He has extensive professional knowledge and managerial experience and performed a lot of fruitful works in facilitating domestic enterprises to explore overseas opportunities and promoting foreign enterprises to invest in China. Mr. Ma is renowned and influential in both domestic and overseas trade sectors and also the overseas business of Chinese enterprises.

Senior Management

ZHI Xiaoye, aged 49, is a Vice President of the Guarantor. Mr. Zhi also serves as General Manager of Beijing Gas Group Company Limited. Mr. Zhi graduated from Beijing University of Technology with a mater degree in Management Science and Engineering, possesses the title of senior engineer, and had worked at Tokyo Gas in Japan as Researcher, at Beijing Gas Group Company Limited as transmission branch Manager, at Beijing Dingxin New Technology Company Limited (北京市鼎新新技術有限公司) as Chairman and at Beijing Gas 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 Guarantor in July 2014.

KE Jian, aged 48, is a Vice President of the Guarantor. Mr. Ke also serves as an Executive Director of Beijing Water and Executive Director, Vice Chairman and CEO of Beijing Environment. Mr. Ke is a PRC 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 Guarantor in 1997 and was appointed as Vice President of the Guarantor in April 2011.

QI Xiaohong, aged 49, is a Vice President of the Guarantor. Ms. Qi graduated from Capital Normal University with a bachelor's degree in legal studies and subsequently from Capital University of Economics and Business with a master's degree in economic management. Ms. Qi's experience include many years with Beijing Municipal Government departments. She concurrently acts as Executive Director and member of the remuneration committee of Beijing Water. Ms. Qi joined the Guarantor in 1997 and is responsible for corporation administration and human resources management of its headquarters. She was appointed as Vice President of the Guarantor in March 2013.

SUN Weichen, aged 54, is a Vice President of the Guarantor. Mr. Sun, who graduated from the Faculty of Accounting of Shanxi University of Finance and the Faculty of Business Administration of Asia International Open University (Macau), possesses a master degree and is a PRC Senior Accountant. Mr. Sun previously worked with Ministry of Light Industry of the PRC, China Light Industry Association, China Sinolight Corporation and China National Light Industrial Materials Co., Ltd. From 1999, Mr. Sun used to work as Chief Accountant and General Manager with Beijing Jing Tai Investment Management Centre, Assistant to Chairman (secondee) of the Ninth Office of State-owned Enterprises Supervisory Committee of Beijing Municipality, and also as Audit Manager with BE Group, etc. Mr. Sun has extensive experience in corporate finance management, audit and capital operation. Mr. Sun was appointed as Vice President of the Guarantor in May 2015.

SHA Ning, aged 46, is a Vice President of the Guarantor. Ms. Sha also serves as an Executive Director and Vice President of Beijing Enterprises Environment Group Limited (stock code: 154). Ms. Sha graduated from the Business Faculty of Heilongjiang University in 1992, majored in Business and Economic Studies, and obtained a second qualification in Foreign Trade Accounting in Beijing School of Business and Capital University of Economics and Business, an EMBA degree from The Hong Kong University of Science and Technology, and the title of PRC 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 Guarantor since January 2017.

EXCHANGE RATE INFORMATION

Hong Kong

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

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

	Exchange Rate			
Period	**Period End**	**Average (1)**	**High**	**Low**
	(HK$ per US$1.00)			
2009	7.7536	7.7513	7.7618	7.7495
2010	7.7810	7.7692	7.8040	7.7506
2011	7.7663	7.7793	7.8087	7.7634
2012	7.7507	7.7557	7.7699	7.7493
2013	7.7539	7.7565	7.7652	7.7503
2014	7.7531	7.7554	7.7669	7.7495
2015	7.7507	7.7524	7.7686	7.7495
2016	7.7534	7.7620	7.8270	7.7505
2017				
January	7.7579	7.7560	7.7540	7.7580
February	7.7627	7.7596	7.7627	7.7575
March (through 24 March)	7.7669	7.7649	7.7689	7.7611

Note:

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

Euro

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

	Noon buying rate			
Period	**Period End**	**Average (1)**	**High**	**Low**
	(US$ per €1.00)			
2008	1.3919	1.4695	1.6101	1.2446
2009	1.4332	1.3955	1.5100	1.2547
2010	1.3269	1.3216	1.4536	1.1959
2011	1.2973	1.4002	1.4875	1.2926
2012	1.3186	1.2909	1.3463	1.2062
2013	1.3779	1.3303	1.3816	1.2774
2014	1.2101	1.3210	1.3927	1.2101
2015	1.0859	1.1096	1.2015	1.0524
2016	1.0552	1.1072	1.1516	1.0375
2017				
January	1.0794	1.0635	1.0794	1.0416
February	1.0618	1.1065	1.0802	1.0551
March (through 24 March)	1.0806	1.0666	1.0810	1.0514

Note:

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

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of Bonds is based upon laws, regulations, rulings and decisions now in effect as of the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the consequences of the purchase, ownership and disposition of Bonds.

PRC Taxation

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

Pursuant to the Enterprise Income Tax Law effective on 1 January 2008 and amended on 24 February 2017, and the PRC Individual Income Tax Law, as amended on 30 June 2011 and effective on 1 September 2011, and their implementation regulations, an income tax is imposed on the interests by way of withholding in respect of the Bonds, paid by the Issuer (if such interests are regarded as income derived from sources within the PRC under the Enterprises Income Tax Law and/or the Individual Income Tax Law) to non-resident Bondholders, including non-resident enterprises and non-resident individuals. The current rates of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of the interest. However, the tax so charged on interests paid on the Bonds to non-resident Bondholders who or which are residents of Hong Kong (including enterprise holders and individual holders) as defined under the arrangement between mainland China and Hong Kong for purpose of the avoidance of double taxation will be 7 per cent. of the gross amount of the interest pursuant to the arrangement between mainland China and Hong Kong and relevant interpretation of the arrangement formulated by the State Administration of Taxation of China. The Issuer has agreed to pay additional amounts to holders of the Bonds so that holders of the Bonds would receive the full amount of the scheduled payment, as further set out in the "*Terms and Conditions of the Bonds*".

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

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

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

British Virgin Islands

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

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

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

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

Hong Kong

Withholding Tax

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

Profits Tax

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

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

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

(b) interest on the Bonds is derived from Hong Kong and is received by or accrues to a company (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or

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

Sums derived from the sale, disposal or redemption of the Bonds will be subject to Hong Kong profits tax where received by or accrued to a person who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Bonds will be subject to profits tax.

Stamp Duty

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

Estate duty

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

FATCA Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply prior to 1 January 2019 Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Bonds, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Managers on 12 April 2017 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to issue, the Guarantor has agreed to guarantee and the Managers have severally but not jointly agreed with the Issuer and the Guarantor to subscribe for the principal amount of Bonds set forth opposite their names below:

Manager	Principal Amount of the Bonds
Agricultural Bank of China Limited Hong Kong Branch	€45,714,000
Bank of China (Hong Kong) Limited	€160,000,000
Bank of Communications Co., Ltd. Hong Kong Branch	€45,714,000
China Construction Bank (Asia) Corporation Limited	€45,714,000
DBS Bank Ltd.	€45,714,000
Deutsche Bank AG, London Branch	€160,000,000
Industrial and Commercial Bank of China (Asia) Limited	€45,714,000
Industrial and Commercial Bank of China (Europe) S.A.	€45,714,000
UBS AG Hong Kong Branch	€160,000,000
Wing Lung Bank Limited	€45,716,000
Total	€800,000,000

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

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

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

The Managers propose to offer the Bonds for resale in transactions not requiring registration under the Securities Act pursuant to Regulation S.

New Issue of the Securities

The Bonds are a new issuance of bonds with no established trading market. Application has been made to the Irish Stock Exchange for the Bonds by way of debt issues to professional investors only to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. However, no assurance can be given as to the liquidity of any trading market for the Bonds. A liquid or active public trading market for the Bonds may not develop. If an active trading market for the Bonds does not develop, the market price and liquidity of the Bonds may be adversely affected. If the Bonds are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the performance of the Issuer and the Guarantor and other factors.

Price Stabilisation and Short Positions

In connection with the offering, the Managers may, to the extent permitted by applicable laws, engage in transactions that stabilise or otherwise affect the market price of the Bonds. These transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Bonds. If the Managers create a short position in the Bonds in connection with the offering (i.e. if the Managers sell more Bonds than are set forth on the cover page of this Offering Circular), the Managers may reduce that short position by purchasing Bonds in the open market. In general, purchases of a Bond for the purpose of stabilisation or to reduce a short position could cause the price of the Bonds to be higher than it might be in the absence of such purchases. There is no assurance, however, that the Managers will undertake stabilisation action. Any stabilisation action may begin on or after the date adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time and must be brought to an end after a limited period.

Neither the Issuer, the Guarantor nor the Managers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Issuer, the Guarantor nor the Managers make any representation that any of the Managers will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Other Relationships

In connection with the offering of the Bonds (the "**Offering**"), the Managers and/or their affiliates, or affiliates of the Issuer or the Guarantor, may purchase the Bonds for its or their own account (without a view to distributing such Bonds). Such entities may hold or sell such Bonds or purchase further Bonds for their own account in the secondary market or deal in any other securities of the Issuer or the Guarantor, and therefore, they may offer or sell the Bonds or other securities otherwise than in connection with the Offering. Accordingly, references herein to the Bonds being 'offered' should be read as including any offering of the Bonds to the Managers and/or thier affiliates, or affiliates of the Issuer or the Guarantor for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Bonds. If this is the case, liquidity of trading in the Bonds may be constrained (see "Risk Factors — An active trading market for the Bonds may not develop"). The Issuer, the Guarantor and the Managers are under no obligation to disclose the extent of the distribution of the Bonds amongst individual investors.

Each of the Managers and/or their affiliates may enter into transactions, including, without limitation, credit derivatives, including asset swaps, repackaging and credit default swaps relating to the Bonds or other securities of the Issuer or the Guarantor at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). The Managers or their affiliates that have a lending relationship with the Issuer and/or the Guarantor may routinely hedge their credit exposure to the Issuer and/or the Guarantor consistent with their customary risk management policies. Typically, the Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's and/or the Guarantor's securities, including potentially the Bonds offered hereby. Any such short positions could adversely affect future trading prices of the Bonds offered hereby. The Managers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Bonds or other financial instruments of the Issuer or the Guarantor, and may recommend to their clients that they acquire long and/or short positions in the Bonds or other financial instruments.

General

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

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

United States

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

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each of the Lead Managers has represented, warranted and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this Offering Circular to the public in that Relevant Member State other than:

(1) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(2) to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive subject to obtaining the prior consent of the relevant Lead Manager or Lead Managers nominated by the Issuer for any such offer; or

(3) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Bonds shall require the Issuer, the Guarantor or any Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Bonds to the public" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (as amended by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

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

(4) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

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

British Virgin Islands

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

Hong Kong

Each of the Managers has represented and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

Singapore

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

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

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

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA, except:

    (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275 (1A), and in accordance with the conditions, specified in Section 275 of the SFA; or

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

    (3) where the transfer is by operation of law; or

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

    (5) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Japan

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

Taiwan

Each of the Managers has represented, warranted and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, at any time, directly or indirectly, any Bonds acquired by it as part of the offering in Taiwan or to, or for the account or benefit of, any resident of Taiwan, unless otherwise permitted by the laws and regulations of Taiwan.

People's Republic of China

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

GENERAL INFORMATION

1. **Clearing System:** The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 160041048 and the International Securities Identification Number for the Bonds is XS1600410481.

2. **Listing of the Bonds:** Application has been made to the Irish Stock Exchange plc for the approval of this Offering Circular as the Listing Particulars. Application has been made to the Irish Stock Exchange for the Bonds by way of debt issues to professional investors only to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC. It is expected that dealing in, and listing of, the Bonds on the Irish Stock Exchange will commence on or around 21 April 2017. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Bonds and is not itself seeking admission of the Bonds to the Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange.

3. **Authorisations:** Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by (i) resolutions of the directors of the Issuer passed on 3 April 2017, and (ii) resolutions of the Board of Directors of the Guarantor passed on 3 April 2017.

4. **NDRC Registration:** The Bonds will be issued within the relevant NDRC Quota. After the issuance of the Bonds, the Guarantor undertakes to provide the requisite information on the issuance of the Bonds to the NDRC within the prescribed time period as required by the NDRC.

5. **No Material Adverse Change:** There has been no material adverse change in the prospects, and there has been no significant change in the financial or trading position, of the Guarantor or the Group since 31 December 2016 nor, of the Issuer since its date of incorporation.

6. **Litigation:** Save as disclosed in this Offering Circular, none of the Issuer or the Guarantor is or has been engaged in nor, so far as the Issuer or the Guarantor are aware, is there any pending or threatened, governmental, legal or arbitration proceedings which may have, or have had, a significant effect on the Issuer's financial position or profitability since the date of its incorporation, or on the Guarantor's financial position or profitability during the 12 months preceding the date of this Offering Circular.

7. **Available Documents:** Physical copies of the audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2015 and 2016 may be obtained free of charge, and copies of the Trust Deed (which includes the guarantee given by the Guarantor), the Agency Agreement and the memorandum and articles of association of each of the Issuer and the Guarantor will be available for inspection, at the principal place of business of the Guarantor at 66/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours, so long as any of the Bonds is outstanding.

8. **Auditors:** The audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2015 and 2016, found at the back of this Offering Circular, have been audited by Ernst & Young, certified public accountants of the Hong Kong Institute of Certified Public Accountants, as stated in their reports appearing therein.

INDEX TO FINANCIAL STATEMENTS

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2015

Pages references set forth below refer to pages in the Guarantor's annual report for the year ended 31 December 2016, and the Guarantor's annual report for the year ended 31 December 2015, respectively.

INDEPENDENT AUDITOR'S REPORT

EY 安永

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 194, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, 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 ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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
Goodwill impairment testing	
Goodwill of the Group arose from acquisition of subsidiaries during the year and in prior years. Management is required to perform a test on goodwill for impairment 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 recoverable amounts of the relevant cash-generating units, which are compared with their respective carrying values. As at 31 December 2016, the goodwill carried in the Group's financial statements was approximately HK$15,772 million excluding the goodwill included in the assets of disposal groups classified as held for sale. 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 3 and 16 to the financial statements.	We assessed the competency and objectivity of the independent external valuer engaged by the Group and involved our internal valuation experts to support us in our audit work. We evaluated management expectations, assumptions and estimates of future results of the cash-generating units used in the valuation models by (i) testing the assumptions used in the cash flow forecasts; (ii) assessing the accuracy of previous forecasts and comparing them with current performance; 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 financial statements, specifically the key assumptions with the most significant effect on the determination of the recoverable amount of the goodwill, such as the discount rate and growth rate.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Purchase price allocation of EEW Group	
In March 2016, the Group acquired the entire equity interest in EEW Group from two independent third parties at a cash consideration of EUR1,453 million. The Group engaged an independent external valuer to assess the fair value of the identifiable assets acquired and liabilities assumed. The Group recognised, inter alia, intangible assets of EUR399 million, fair value adjustment on property, plant and equipment of EUR124 million and goodwill of EUR835 million as a result of the business combination. The accounting for this business combination relied significantly on management estimation and judgements in respect of fair value assessments and the allocation of the purchase price. Because of the significant judgements and estimation, and the materiality of the amounts involved, this is identified as a key audit matter. The related disclosures are included in notes 3 and 45 to the financial statements.	We assessed the competency and objectivity of the independent external valuer engaged by the Group and involved our internal valuation experts to support us in our audit work. We evaluated management's valuation methodologies and assumptions used in the purchase price allocation by (i) comparing them with source and market data used in the underlying assumptions used in the valuation of the assets acquired and liabilities assumed by reference to the results of other comparable companies in the same industry; (ii) evaluating the valuation methodologies adopted in determining the fair value of the identifiable assets acquired and liabilities assumed; and (iii) comparing the business plan prepared by management for the purpose of assessing the assumptions used. Furthermore, we assessed the sensitivity of management's estimates by evaluating the impact to the purchase price allocation within a certain range of the estimates. We also focused on the adequacy of the Group's disclosures of the business combination in the 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 between the date of the last meter reading and the year end depends on the estimated volume of gas sold during the period. The estimation is complex and 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, adjusted by the location and nature of customers. The related disclosures are included in note 3 to the financial statements.	We evaluated management's estimation by comparing the subsequent actual bills with accrued revenue. We also performed substantive testing on the source data, control testing on the key control points and reviewed the calculation of accrued revenue. In addition, we performed analytical review on the overall financial performance, including monthly sales analysis by types of customer, gross profit margin analysis and recoverability analysis. We obtained explanations for material differences from our expectation formed with reference to growth of customer base and seasonal factors of current year.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- 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, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Anthony S.T. Leung.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	**2016** **HK$'000**	2015 HK$'000
REVENUE	*5*	**55,958,834**	60,149,945
Cost of sales		**(46,523,010)**	(51,098,897)
Gross profit		**9,435,824**	9,051,048
Gain on deemed disposal of partial interest in an associate	*20(a)*	**4,387**	2,390
Other income and gains, net	*5*	**1,623,890**	1,464,170
Selling and distribution expenses		**(2,418,684)**	(2,575,564)
Administrative expenses		**(4,225,780)**	(3,936,272)
Other operating expenses, net		**(380,230)**	(773,964)
PROFIT FROM OPERATING ACTIVITIES	*6*	**4,039,407**	3,231,808
Finance costs	*7*	**(1,492,335)**	(1,301,863)
Share of profits and losses of:			
Joint ventures	*19(a)*	**6,623**	(183)
Associates	*20(b)*	**4,943,273**	4,708,112
PROFIT BEFORE TAX		**7,496,968**	6,637,874
Income tax	*10*	**(857,723)**	(681,961)
PROFIT FOR THE YEAR		**6,639,245**	5,955,913
ATTRIBUTABLE TO:			
Shareholders of the Company		**6,235,883**	5,667,378
Non-controlling interests		**403,362**	288,535
		6,639,245	5,955,913
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	*12*		
Basic and diluted		**HK$4.92**	HK$4.41

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
PROFIT FOR THE YEAR		**6,639,245**	5,955,913
OTHER COMPREHENSIVE LOSS			
Items to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**(66,968)**	(107,495)
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss		**–**	(20,617)
Income tax effect		**–**	5,155
		(66,968)	(122,957)
Exchange differences:			
Exchange differences on translation of foreign operations		**(4,474,137)**	(2,927,685)
Reclassification adjustments for a foreign operation disposed of during the year	46	**58,619**	–
		(4,415,518)	(2,927,685)
Fair value gain on revaluation of a building upon transfer to investment property		**–**	29,685
Share of other comprehensive loss of associates		**(1,040,848)**	(683,697)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(5,523,334)**	(3,704,654)
Items not to be reclassified to profit or loss in subsequent periods:			
Defined benefit plans:			
Actuarial losses		**(205,211)**	(132,576)
Income tax effect		**50,099**	33,144
		(155,112)	(99,432)
Share of other comprehensive loss of associates		**(6,393)**	(7,498)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(161,505)**	(106,930)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX		**(5,684,839)**	(3,811,584)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**954,406**	2,144,329
ATTRIBUTABLE TO:			
Shareholders of the Company		**1,086,172**	2,334,243
Non-controlling interests		**(131,766)**	(189,914)
		954,406	2,144,329

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	*13*	**43,427,899**	37,735,621
Investment properties	*14*	**1,133,290**	1,194,258
Prepaid land premiums	*15*	**1,529,906**	1,888,032
Goodwill	*16*	**15,772,276**	8,927,959
Operating concessions	*17*	**2,666,050**	2,250,526
Other intangible assets	*18*	**3,355,963**	282,844
Investments in joint ventures	*19*	**345,942**	192,651
Investments in associates	*20*	**32,771,154**	31,599,399
Available-for-sale investments	*23*	**3,171,535**	1,012,557
Amounts due from contract customers	*25*	**9,943**	388,771
Receivables under service concession arrangements	*17*	**1,598,429**	1,655,090
Receivables under finance lease	*21*	**848,684**	–
Prepayments, deposits and other receivables	*27*	**2,941,380**	3,220,569
Debt component of convertible bond receivables	*22*	**83,107**	–
Derivative component of convertible bond receivables	*22*	**40,376**	–
Deferred tax assets	*41*	**1,176,529**	779,713
Total non-current assets		**110,872,463**	91,127,990
Current assets:			
Prepaid land premiums	*15*	**36,371**	45,222
Inventories	*24*	**4,952,949**	4,644,199
Receivables under finance lease	*21*	**135,477**	–
Amounts due from contract customers	*25*	**23,335**	39,623
Receivables under service concession arrangements	*17*	**70,673**	135,675
Trade and bills receivables	*26*	**3,677,157**	3,544,455
Prepayments, deposits and other receivables	*27*	**4,781,741**	3,835,300
Other taxes recoverable		**560,011**	1,336,880
Restricted cash and pledged deposits	*29*	**56,547**	73,003
Cash and cash equivalents	*30*	**15,971,552**	13,693,804
		30,265,813	27,348,161
Assets of disposal groups classified as held for sale	*31*	**3,570,485**	6,289,889
Total current assets		**33,836,298**	33,638,050
TOTAL ASSETS		**144,708,761**	124,766,040

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	*32*	**30,401,883**	30,401,883
Reserves	*34(a)*	**26,919,325**	27,785,384
		57,321,208	58,187,267
Non-controlling interests		**10,717,718**	10,464,903
TOTAL EQUITY		**68,038,926**	68,652,170
Non-current liabilities:			
Bank and other borrowings	*35*	**12,876,585**	8,263,049
Guaranteed bonds and senior notes	*36*	**19,333,950**	19,444,592
Defined benefit plans	*38*	**1,633,945**	827,960
Provision for onerous contracts and major overhauls	*39*	**461,103**	28,363
Other non-current liabilities	*40*	**1,022,636**	761,946
Deferred tax liabilities	*41*	**2,081,420**	480,481
Total non-current liabilities		**37,409,639**	29,806,391

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	**2016** **HK$'000**	2015 HK$'000
Current liabilities:			
Trade and bills payables	*42*	**3,929,197**	3,640,954
Amounts due to contract customers	*25*	**322,684**	329,589
Receipts in advance		**5,566,252**	5,366,453
Other payables and accruals	*43*	**9,500,657**	8,256,953
Provision for onerous contracts	*39*	**46,235**	–
Income tax payables		**908,600**	494,147
Other taxes payables		**250,267**	198,802
Bank and other borrowings	*35*	**18,418,558**	7,047,965
		38,942,450	25,334,863
Liabilities directly associated with the assets of disposal groups classified as held for sale	*31*	**317,746**	972,616
Total current liabilities		**39,260,196**	26,307,479
TOTAL LIABILITIES		**76,669,835**	56,113,870
TOTAL EQUITY AND LIABILITIES		**144,708,761**	124,766,040

Zhou Si
Director

Tam Chun Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to shareholders of the Company											
	Notes	Share capital *HK$'000*	Treasury shares *HK$'000* *(note 32(a))*	Capital reserve *HK$'000*	Available–for-sale investment revaluation reserve *HK$'000*	Property revaluation reserve *HK$'000*	Defined benefit plans reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	PRC reserve funds *HK$'000* *(note 34(b))*	Retained profits *HK$'000*	Total *HK$'000*	Non–controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2015		30,401,883	–	877,088	195,646	43,843	16,552	5,236,494	6,302,438	14,102,412	57,176,356	10,919,624	68,095,980
Profit for the year		–	–	–	–	–	–	–	–	5,667,378	5,667,378	288,535	5,955,913
Other comprehensive income/(loss) for the year:													
Available-for-sale investments:													
Changes in fair value		–	–	–	(110,449)	–	–	–	–	–	(110,449)	2,954	(107,495)
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	*5*	–	–	–	(16,494)	–	–	–	–	–	(16,494)	(4,123)	(20,617)
Income tax effect	*41*	–	–	–	4,124	–	–	–	–	–	4,124	1,031	5,155
Exchange differences:													
Translation of foreign operations		–	–	–	–	–	–	(2,449,374)	–	–	(2,449,374)	(478,311)	(2,927,685)
Defined benefit plans:													
Actuarial losses	*38(b)*	–	–	–	–	–	(132,576)	–	–	–	(132,576)	–	(132,576)
Income tax effect	*41*	–	–	–	–	–	33,144	–	–	–	33,144	–	33,144
Fair value gain on revaluation of a building upon transfer to investment property	*13*	–	–	–	–	29,685	–	–	–	–	29,685	–	29,685
Share of other comprehensive income/(loss) of associates		–	–	–	–	8,202	(15,700)	(683,697)	–	–	(691,195)	–	(691,195)
Total comprehensive income/(loss) for the year		–	–	–	(122,819)	37,887	(115,132)	(3,133,071)	–	5,667,378	2,334,243	(189,914)	2,144,329
Capital contribution from non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	2,531	2,531
Shares repurchased	*32*	–	(46,623)	–	–	–	–	–	–	(69,384)	(116,007)	–	(116,007)
Acquisition of subsidiaries	*45*	–	–	–	–	–	–	–	–	–	–	90,524	90,524
Acquisition of non-controlling interests		–	–	(140,585)	–	–	–	–	–	–	(140,585)	(165,548)	(306,133)
Deemed disposal of partial interests in subsidiaries		–	–	4,118	–	–	–	(83)	–	–	4,035	108,179	112,214
Share of reserves of associates		–	–	110,827	–	–	–	–	–	–	110,827	–	110,827
Final 2014 dividend		–	–	–	–	–	–	–	–	(796,297)	(796,297)	–	(796,297)
Interim 2015 dividend	*11*	–	–	–	–	–	–	–	–	(385,305)	(385,305)	–	(385,305)
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	(300,493)	(300,493)
Transfer to reserves		–	–	–	–	–	–	–	1,298,761	(1,298,761)	–	–	–
At 31 December 2015		30,401,883	(46,623)	851,448	72,827	81,730	(98,580)	2,103,340	7,601,199	17,220,043	58,187,267	10,464,903	68,652,170

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to shareholders of the Company											
	Notes	Share capital *HK$'000*	Treasury shares *HK$'000* (note 32(a))	Capital reserve *HK$'000*	Available–for-sale investment revaluation reserve *HK$'000*	Property revaluation reserve *HK$'000*	Defined benefit plans reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	PRC reserve funds *HK$'000* (note 34(b))	Retained profits *HK$'000*	Total *HK$'000*	Non–controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2016		30,401,883	(46,623)*	851,448*	72,827*	81,730*	(98,580)*	2,103,340*	7,601,199*	17,220,043*	58,187,267	10,464,903	68,652,170
Profit for the year		–	–	–	–	–	–	–	–	6,235,883	6,235,883	403,362	6,639,245
Other comprehensive income/(loss) for the year:													
Available-for-sale investments:													
Changes in fair value		–	–	–	(66,968)	–	–	–	–	–	(66,968)	–	(66,968)
Exchange differences:													
Translation of foreign operations		–	–	–	–	–	–	(3,938,282)	–	–	(3,938,282)	(535,855)	(4,474,137)
Reclassification adjustments for a foreign operation disposed of during the year	*46*	–	–	–	–	–	–	58,619	–	–	58,619	–	58,619
Defined benefit plans:													
Actuarial losses	*38(b)*	–	–	–	–	–	(206,250)	–	–	–	(206,250)	1,039	(205,211)
Income tax effect	*41*	–	–	–	–	–	50,411	–	–	–	50,411	(312)	50,099
Share of other comprehensive loss of associates		–	–	–	–	(6,131)	(6,393)	(1,034,717)	–	–	(1,047,241)	–	(1,047,241)
Total comprehensive income/(loss) for the year		–	–	–	(66,968)	(6,131)	(162,232)	(4,914,380)	–	6,235,883	1,086,172	(131,766)	954,406
Capital contribution from non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	28,448	28,448
Shares repurchased	*32*	–	46,623	–	–	–	–	–	–	(751,675)	(705,052)	–	(705,052)
Acquisition of subsidiaries	*45*	–	–	–	–	–	–	–	–	–	–	750,845	750,845
Disposal of subsidiaries	*46*	–	–	–	–	–	–	–	–	–	–	(11,767)	(11,767)
Deemed disposal of partial interest in a subsidiary		–	–	(2,274)	–	–	–	744	–	–	(1,530)	3,402	1,872
Share of reserves of associates		–	–	(33,150)	–	–	–	–	–	–	(33,150)	–	(33,150)
Final 2015 dividend	*11*	–	–	–	–	–	–	–	–	(833,853)	(833,853)	–	(833,853)
Interim 2016 dividend	*11*	–	–	–	–	–	–	–	–	(378,646)	(378,646)	–	(378,646)
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	(386,347)	(386,347)
Transfer to reserves		–	–	25	–	–	–	–	1,178,713	(1,178,738)	–	–	–
At 31 December 2016		30,401,883	–*	816,049*	5,859*	75,599*	(260,812)*	(2,810,296)*	8,779,912*	20,313,014*	57,321,208	10,717,718	68,038,926

* *These reserve accounts comprise the consolidated other reserves of HK$26,919,325,000 (2015: HK$27,785,384,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**7,496,968**	6,637,874
Adjustments for:			
Gain on deemed disposal of partial interest in an associate		**(4,387)**	(2,390)
Bank interest income	5	**(221,733)**	(163,065)
Transfer of assets from customers	5	**(63,719)**	(40,325)
Fair value gain on investment properties	5	**–**	(479,798)
Gain on disposal of subsidiaries	5	**(350,209)**	–
Gain on disposal of available-for-sale investments carried at fair value, net	5	**–**	(20,617)
Depreciation	6	**2,929,052**	2,573,813
Amoritsation of prepaid land premiums	6	**56,609**	65,759
Amortisation of operating concessions	6	**95,501**	84,338
Amortisation of other intangible assets	6	**244,507**	37,580
Loss on disposal of items of property, plant and equipment, net	6	**7,941**	8,523
Loss on disposal of prepaid land premiums	6	**6,906**	–
Impairment of items of property, plant and equipment, net	6	**5,214**	155,832
Fair value loss on derivative component of convertible bond receivables	6	**37,546**	–
Impairment of operating concession	6	**81,535**	189,645
Impairment of investment in an associate	6	**–**	76,478
Write down to fair value less cost to sell for a disposal group held for sale	6	**–**	231,416
Provision/(reversal of provision) for impairment of trade and bills receivables, net	6	**32,089**	(23,765)
Impairment of other receivables, net	6	**20,293**	16,614
Reversal of provision for onerous contracts	6	**(121,978)**	–
Finance costs	7	**1,492,335**	1,301,863
Share of profits and losses of joint ventures and associates		**(4,949,896)**	(4,707,929)
Operating profit before working capital changes		**6,794,574**	5,941,846
Decrease/(increase) in inventories		**(432,158)**	455,288
Decrease/(increase) in amounts due from contract customers		**20,855**	(92,037)
Decrease/(increase) in receivables under service concession arrangements		**2,385**	(710,741)
Decrease in trade and bills receivables		**248,066**	1,569,564
Decrease in prepayments, deposits and other receivables		**2,363,323**	2,503,222
Decrease in other taxes recoverable		**805,310**	782,519
Increase in trade and bills payables		**352,235**	1,293,200
Increase/(decrease) in amounts due to contract customers		**15,768**	(31,843)
Increase/(decrease) in receipts in advance		**583,495**	(137,680)
Increase in other payables and accruals		**980,161**	694,225
Decrease in other taxes payable		**(204,155)**	(67,570)
Increase in defined benefit plans		**165,239**	62,057
Increase in other non-current liabilities		**485,362**	362,070
Increase in provision for major overhauls		**25,770**	–
Cash generated from operations		**12,206,230**	12,624,120
Dividends received from joint ventures and associates		**420,671**	2,465,584
Mainland China income tax paid		**(663,439)**	(500,442)
Net cash flows from operating activities		**11,963,462**	14,589,262

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received from an associate		**219,908**	182,374
Purchases of items of property, plant and equipment		**(4,263,543)**	(3,960,354)
Proceeds from disposal of items of property, plant and equipment		**148,889**	83,029
Additions of operating concessions		**(181,624)**	(31,169)
Additions of prepaid land premiums		**(25,713)**	(90,958)
Additions of other intangible assets		**(70,142)**	(85,362)
Acquisition of subsidiaries	*45*	**(12,108,174)**	(64,118)
Disposal of subsidiaries	*46*	**2,247,480**	–
Acquisition of/increase in investments in joint ventures and associates		**(970,000)**	(236,342)
Establishment of a joint venture		**–**	(31,481)
Additions of available-for-sale investments		**–**	(87,795)
Prepayment for acquisition of available-for-sale investments		**(2,392,052)**	(2,400,086)
Subscription of convertible bond		**(350,000)**	–
Increase in amounts due from and loans to joint ventures and associates		**(111,541)**	(1,422)
Proceeds from disposal of available-for-sale investments		**–**	47,691
Decrease/(increase) in time deposits with maturity of more than three months when acquired		**(127,786)**	143,031
Decrease/(increase) in restricted cash and pledged deposits		**44,190**	(31,214)
Interest received		**221,733**	163,065
Net cash flows used in investing activities		**(17,718,375)**	(6,401,111)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		**28,448**	2,531
Proceed from deemed disposal of partial interest in a subsidiary		**1,872**	29,762
Acquisition of non-controlling interests		**–**	(306,133)
Repurchase of the Company's shares	*32*	**(705,052)**	(92,376)
Proceeds from issue of guaranteed bonds, net of issuance costs		**–**	5,781,933
New loans		**21,936,195**	11,863,065
Repayment of loans		**(9,970,367)**	(19,233,724)
Redemption of convertible bonds		**–**	(3,178)
Interest paid		**(1,490,376)**	(1,304,707)
Dividends paid		**(1,212,499)**	(1,181,602)
Dividends paid to non-controlling equity holders		**(386,347)**	(300,493)
Net cash flows from/(used in) financing activities		**8,201,874**	(4,744,922)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,446,961**	3,443,229
Cash and cash equivalents at beginning of year		**14,209,132**	11,223,622
Effect of foreign exchange rate changes, net		**(592,376)**	(457,719)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**16,063,717**	14,209,132

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances:			
Placed in banks	30	**9,110,546**	8,097,898
Placed in a financial institution	30	**2,196,315**	1,345,140
Time deposits:			
Placed in banks	30	**3,248,156**	2,025,618
Placed in a financial institution	30	**1,473,082**	2,298,151
Less: Restricted cash and pledged deposits	30	**(56,547)**	(73,003)
Cash and cash equivalents as stated in the consolidated statement of financial position		**15,971,552**	13,693,804
Less: Time deposits with maturity of more than three months when acquired		**(133,065)**	(11,740)
Add: Cash and bank balances attributable to disposal groups	31	**225,230**	527,068
Cash and cash equivalents as stated in the consolidated statement of cash flows		**16,063,717**	14,209,132

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") were involved in the following principal activities:

- the distribution and sale of piped natural gas, the provision of natural gas transmission, gas technology consultation and development services, surveying and plotting of underground construction projects, the construction and installation of gas pipelines and related equipment and the provision of repairs and maintenance services in Beijing, the People's Republic of China (the "PRC")

- the production, distribution and sale of brewery products in Beijing and other provinces in the PRC

- 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 the PRC and certain overseas countries

- the solid waste treatment business which comprises the construction and operation of waste incineration plants, waste treatment and the sales of electricity, heat and steam generated from waste incineration in Germany and in the PRC.

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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries

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

Company name	Place of incorporation/ registration and business	Issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
北京市燃氣集團有限責任公司 ("Beijing Gas")	PRC/Mainland China	RMB5,883,767,802	–	100	Distribution and sale of piped gas
北京燕京啤酒投資有限公司 ("Yanjing Investment")	PRC/Mainland China	RMB3,409,828,000	–	79.77	Investment holding
Beijing Yanjing Brewery Company Limited ("Yanjing Brewery")*	PRC/Mainland China	RMB2,808,451,958	–	45.79†	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan")#	PRC/Mainland China	RMB250,000,000	–	22.91†	Production and sale of beer
燕京啤酒(包頭雪鹿)股份有限公司	PRC/Mainland China	RMB547,300,000	–	39.40†	Production and sale of beer
燕京啤酒(桂林漓泉)股份有限公司	PRC/Mainland China	RMB349,366,900	–	34.69†	Production and sale of beer
燕京啤酒(桂林玉林)股份有限公司	PRC/Mainland China	RMB430,000,000	–	33.31†	Production and sale of beer
燕京啤酒(赤峰)有限責任公司	PRC/Mainland China	RMB367,110,200	–	43.16†	Production and sale of beer
燕京啤酒(新疆)有限責任公司	PRC/Mainland China	RMB683,650,000	–	45.79†	Production and sale of beer
燕京啤酒(衡陽)有限公司	PRC/Mainland China	RMB525,660,000	–	44.80†	Production and sale of beer
燕京啤酒(萊州)有限公司	PRC/Mainland China	RMB187,053,800	–	68.87†	Production and sale of beer
燕京啤酒(仙桃)有限公司	PRC/Mainland China	RMB292,353,000	–	45.69†	Production and sale of beer
燕京啤酒(曲阜三孔)有限責任公司	PRC/Mainland China	RMB260,817,189	–	84.88	Production and sale of beer
燕京啤酒(四川)有限公司	PRC/Mainland China	RMB480,000,000	–	45.79†	Production and sale of beer
燕京啤酒(晉中)有限公司	PRC/Mainland China	RMB250,000,000	–	45.79†	Production and sale of beer
廣東燕京啤酒有限公司	PRC/Mainland China	RMB809,880,000	–	59.34	Production and sale of beer
新疆燕京農產品開發有限公司	PRC/Mainland China	RMB230,000,000	–	45.79†	Production and sale of raw materials

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Company name	Place of incorporation/ registration and business	Issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
北京高安屯垃圾焚燒有限公司	PRC/Mainland China	RMB274,000,000	–	84.90	Solid waste treatment operation
張家港金洲再生能源有限公司	PRC/Mainland China	RMB282,000,000	–	100	Solid waste treatment operation
Beijing Enterprises Environment Group Limited ("BEEGL", formerly known as "Beijing Development (Hong Kong) Limited")Ω	Hong Kong	HK$2,227,563,951	1.16	49.23	Solid waste treatment business
EEW Holding GmbH ("EEW")	Germany	EUR76,996,700	–	100	Solid waste treatment business
EEW Energy from Waste Göppingen GmbH	Germany	EUR1,050,000	–	100	Solid waste treatment business
EEW Energy from Waste Saarbrücken GmbH	Germany	EUR20,452,000	–	100	Solid waste treatment business
EEW Energy from Waste Helmstedt GmbH	Germany	EUR25,000,000	–	100	Solid waste treatment business
EEW Energy from Waste Stapelfeld GmbH	Germany	EUR50,000,000	–	100	Solid waste treatment business
EEW Energy from Waste Heringen GmbH	Germany	EUR25,000,000	–	100	Solid waste treatment business
MHKW Rothensee GmbH	Germany	EUR50,000,000	–	51	Solid waste treatment business

† *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.*

During the year, the Group acquired EEW from independent third parties. Further details of this acquisition are included in note 45(a) to the financial statements.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for (i) investment properties, derivative financial instruments and certain available-for-sale investments which have been measured at fair value; and (ii) disposal groups held for sale which are stated at the lower of its carrying amount and fair value less costs to sell, as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

In preparing the consolidated financial statements, the Directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group's total current liabilities exceeded its total current assets as at 31 December 2016. Taking into account the Group's internal financial resources, available banking facilities and new banking facilities currently under negotiation, the Directors of the Company considered that the Group will be able to continue as a going concern. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. 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).

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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 profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has fully assessed and adopted, to the extent that is relevant to the Group, the following new and revised HKFRSs for the first time for the current year's financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

   (i) the materiality requirements in HKAS 1;

   (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

   (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

   (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

   Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

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

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments to HKFRS 5 are as follows:

- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no significant impact on the Group for the current year.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Annual Improvements 2014-2016 cycle	Amendments to a number of HKFRSs[5]

1 *Effective for annual periods beginning on or after 1 January 2017*
2 *Effective for annual periods beginning on or after 1 January 2018*
3 *Effective for annual periods beginning on or after 1 January 2019*
4 *No mandatory effective date yet determined but available for adoption*
5 *Effective for annual periods beginning on or after 1 January 2017 or 2018, with early application permitted*

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs *(Continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

(a) The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

(b) In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

(c) Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs *(Continued)*

(d) HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

(e) HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs *(Continued)*

(f) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

(g) Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

(h) *Annual Improvements to HKFRSs 2014-2016 Cycle* issued in March 2017 sets out amendments to a number of HKFRSs. Details of the applicable amendments are as follows:

HKFRS 12 *Disclosure of Interest in Other entities*: Clarified the scope of the standard by specifying that certain disclosure requirements is not required for subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

HKAS 28 *Investments in Associates and Joint Ventures*: Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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.

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

The Group's investments in associates and joint ventures 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

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 significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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 the parent of the Group.

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.

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. When an item of property, plant and equipment is part of disposal groups classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Disposal groups held for sale".

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 the statement of 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:

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

Construction in progress represents gas pipelines, buildings, structures, plant and machinery and other property, plant and equipment under construction or installation, construction materials (which include materials for construction projects and equipment that needs to be installed) and prepayments for large-scale equipment. Construction in progress is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises 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.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and certain equity 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property 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.

When a property occupied by the Group as an owner-occupied property becomes an investment property, any difference between the carrying amount and the fair value of the property at the date of change in use is accounted for as follows:

(a) any resulting decrease in the carrying amount of the property is recognised in the statement of profit or loss in the period the change in use takes place.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

(b) any resulting increase in the carrying amount is credited to the statement of profit or loss, to the extent that the increase reverses a previous impairment loss for that property, or restores the carrying amount of the property to an amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the property in prior periods; and any remaining part of the increase in the carrying amount is credited directly to equity in the property revaluation reserve. On subsequent disposal of the property, the relevant portion of the property revaluation reserve realised is transferred to retained profits as a movement in reserves.

Disposal groups held for sale

Disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the disposal groups must be available for immediate sale in their present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and their sale must be highly probable. All assets and liabilities of a subsidiary classified as disposal groups are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor, are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

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, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

Construction or upgrade services

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

Operating services

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

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 as 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 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.

Operating concessions

Operating concessions represent the rights to operate a toll road and solid waste treatment 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 20 to 40 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Operating right

Operating right represents the fair value of the non-guarantee receipt right to receive cash from service concession arrangement under a Build-Operate-Own basis ("BOO"). Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the respective subsidiaries of the Group.

Customer contracts

Customer contracts represents the fair value of the economic benefits from several customer service agreements. Amortisation is provided on the straight-line basis over the contract period of 1 to 28 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 arising from the projects 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. 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, goodwill, deferred tax assets, financial assets, inventories, amounts due from contract customers and non-current assets/disposal groups classified as held for sale), 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 to sell, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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 a non-financial 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 financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded 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 fair value through profit or loss

Financial assets at fair value through profit or loss are equity investments held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39. Gains or losses on investments held for trading are recognised in profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other operating expenses in profit or loss. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policies set out in “Revenue recognition” below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

(a) Financial assets at fair value through profit or loss *(Continued)*

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of 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.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate and transaction costs. The effective interest rate amortisation is included in "Revenue" or "Other income and gains, net", as appropriate, in profit or loss. The loss arising from impairment is recognised as other operating expenses in profit or loss.

(c) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments that are designated as available for sale. After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve, until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss as other income and gains, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss as other operating expenses. Dividends earned whilst holding the available-for-sale financial investments are reported as investment income and are recognised as other income and gains in profit or loss in accordance with the policy set out in "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for these investments or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any accumulated impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(a) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss as other operating expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment (Continued)

(b) Available-for-sale investments carried at fair value

For available-for-sale investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from the available-for-sale investment revaluation reserve and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss) is removed from the available-for-sale investment revaluation reserve and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in the available-for-sale investment revaluation reserve.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

(c) Available-for-sale investments carried at cost

If there is objective evidence that an impairment loss has been incurred on an unlisted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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 the asset. 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 classified, at initial recognition, as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement

Loans and borrowings

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement (Continued)

Loans and borrowings *(Continued)*

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

Derecognition

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of best estimate of the expenditure required to settle the present obligation at the end of the reporting period and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Offsetting of financial instruments

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

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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 the estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts

Contract revenue comprises (i) the agreed contract amounts and appropriate amounts from variation orders, claims and incentive payments in respect of the construction services for comprehensive renovation projects and (ii) construction revenue recognised under Build-Operate-Transfer ("BOT") contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from the construction services for comprehensive renovation projects is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from the construction of waste power plants and sewage treatment plants under the terms of BOT contracts (service concession agreements) 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, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contracts for services *(Continued)*

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

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.

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 as finance costs in profit or loss.

Onerous contracts

Present obligation 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 contracts.

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 for the current and prior periods 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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, associates and joint ventures, 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.

Deferred tax assets are recognised for all deductible temporary differences, 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, associates and joint ventures, 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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or is deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation/amortisation charge.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage-of-completion basis, as further explained in the accounting policy for "Construction contracts" above;

(c) from the rendering of services, on the percentage-of-completion basis, as further explained in the accounting policy for "Contracts for services" above;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a short period, when appropriate, to the net carrying amount of the financial asset;

(f) dividend income, when the shareholders' right to receive payment has been established; and

(g) finance lease income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of the finance lease or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments

The Company 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 the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees 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 the Company is determined by external valuers using the binomial lattice model.

The cost of equity-settled transactions is recognised in the statement of profit or loss, together with a corresponding increase in the share option 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 the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account.

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

Other employee benefits

Pension schemes

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

For those employees that have not yet joined a pension scheme, the Group has accrued for the estimated future pension costs based on a percentage of their salaries. The related assets for the purpose of discharging such liabilities are not separately held from those of the Group.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

Other retirement benefits

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 the these defined benefit plans are determined using the projected unit credit method and are charged to the 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 using the interest rates of the PRC government bonds which have terms similar to those of related liabilities. Actuarial gains and losses, which are remeasurements arising from defined benefit pension plans, are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through 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

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 the consolidated profit or loss by function:

- 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item 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 items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain Mainland China and overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of comprehensive income 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Business combination

In March 2016, the Group acquired the entire equity interest in EEW Holding GmbH and M+E Holding GmbH & Co. KG ("EEW Group") from two independent third parties at a cash consideration of EUR1,453 million. The assessment of the fair value of the identifiable assets acquired and liabilities assumed and allocation of the purchase price required significant management judgements and estimation.

The Group recognised, inter alia, intangible assets of EUR399 million, fair value adjustment on property, plant and equipment of EUR124 million and goodwill of EUR835 million, details of which is set out in note 45 to the financial statements.

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 to sell of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2016 was HK$15,772,276,000 (2015: HK$8,927,959,000), details of which are set out in note 16 to the financial statements. The carrying amount of goodwill included in disposal group classified as held for sale as at 31 December 2016 was HK$72,824,000 (2015: HK$657,372,000), details of which are set out in note 31 to the financial statements.

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

Estimate of gas consumption

Determination of the revenue generated for the distribution and sale of piped 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 past consumption records and the recent consumption pattern of individual customers. The actual consumption could deviate from those estimates.

Associate

The Group regards Beijing Enterprises Water Group Limited ("BE Water", an entity listed on the Hong Kong Stock Exchange with its 43.77% equity interest held by the Group as at 31 December 2016) as an associate. In determining whether the Group has control over BE Water, the Group has taken into account its effective influence it may exercise over the decisions of BE Water's board of directors, including the voting rights held by the Group, the structure of the board of directors and senior management of BE Water and the expertise of directors designated by other shareholders. In the opinion of the directors, the Group did not have the sufficient ability to exercise power to control BE Water throughout the year ended 31 December 2016 and BE Water was accounted for as an associate in the Group's consolidated financial statements.

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

The carrying amounts of items of property, plant and equipment and other intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows or compensation to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. The carrying amounts of property, plant and equipment and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2016 were HK$43,427,899,000 (2015: HK$37,735,621,000) and HK$6,022,013,000 (2015: HK$2,533,370,000), respectively, details of which are set out in notes 13, 17 and 18 to the financial statements.

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

Impairment of available-for-sale investments

The Group follows the guidance of HKAS 39 in determining when an investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and the extent to which the estimated value of an investment is less than its cost; and the financial health of and the short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operating and financing cash flows. The carrying amount of available-for-sale investments carried as assets in the consolidated statement of financial position as at 31 December 2016 was HK$3,171,535,000 (2015: HK$1,012,557,000), details of which are set out in note 23 to the financial statements.

Impairment of receivables under service concession arrangements, trade and bills receivables and other receivables

The Group's management determines the provision for impairment of receivables under service concession arrangements, trade and bills receivables and other receivables. This estimate is based on the evaluation of collectibility and aged analysis of these receivables and on management's estimation in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor and the provision is applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. Management reassesses the adequacy of provision on a regular basis. The identification of impairment of receivables requires the use of judgements and estimates. Where the expectations are different from the original estimates, such differences will impact on the carrying values of receivables and the impairment of receivables recognised in the periods in which such estimates have been changed. The carrying amounts of receivables under service concession arrangements, trade and bills receivables and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2016 were HK$1,669,102,000 (2015: HK$1,790,765,000), HK$3,677,157,000 (2015: HK$3,544,455,000) and HK$4,847,077,000 (2015: HK$3,418,902,000), respectively, details of which are set out in notes 17, 26 and 27 to the financial statements.

Provision for onerous contracts

Management estimates the provision for onerous contracts being the present obligation of the unavoidable costs less the economic benefits expected to be received under those solid waste treatment service contracts. The expected economic benefits are estimated based on net discounted cash flows generated from solid waste treatment fee, while unavoidable costs are waste processing costs that the Group is obligated to make under the solid waste treatment service contracts.

Management conducted an assessment of the non-cancellable contracts and had a provision of HK$334,150,000 for onerous contracts at 31 December 2016 (note 39).

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

Defined benefit plans

The present value of the retirement benefit obligations under the various defined benefit plans of the Group depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligations. Key assumptions for the obligations are based in part on the current market conditions. The carrying amount of the obligations carried as liabilities in the consolidated statement of financial position under defined benefit plans as at 31 December 2016 was HK$1,647,038,000 (2015: HK$837,704,000), details of which are disclosed in note 38 to the financial statements.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and overseas. The Group carefully evaluates tax implications of transactions in accordance with the prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of income tax payables carried as liabilities in the consolidated statement of financial position as at 31 December 2016 was HK$908,600,000 (2015: HK$494,147,000).

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried in the consolidated statement of financial position as at 31 December 2016 were HK$1,176,529,000 (2015: HK$779,713,000) and HK$2,081,420,000 (2015: HK$480,481,000), respectively, details of which are set out in note 41 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

(a) the piped gas operation segment engages in the distribution and sale of piped natural gas, the provision of natural gas transmission, gas technology consultation and development services, the surveying and plotting of underground construction projects, the construction and installation of gas pipelines and related equipment and the provision of repairs and maintenance services;

(b) the brewery operation segment produces, distributes and sells brewery products;

(c) the water and environmental operations 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 the PRC and certain overseas countries;

(d) the solid waste treatment segment comprises the construction and operation of waste incineration plants, waste treatment and the sale of electricity, heat and steam generated from waste incineration in Germany and in the PRC; and

(e) the corporate and others segment comprises the sale of IT related products, the provision of system integration and maintenance services and software development and 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.

During the year ended 31 December 2016, the Group acquired the entire interests in EEW Group, further details of which are set out in note 45 to the financial statements. EEW Group is principally engaged in the solid waste treatment business which now constitutes a reportable operating segment of the Group.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016

	Piped gas operation *HK$'000*	Brewery operation *HK$'000*	Water and environmental operations *HK$'000*	Solid waste treatment operation *HK$'000*	Corporate and others *HK$'000*	Inter-segment elimination *HK$'000*	Consolidated *HK$'000*
Segment revenue	39,378,983	11,589,905	–	4,929,259	60,687	–	55,958,834
Cost of sales	(35,101,605)	(7,662,523)	–	(3,693,640)	(65,242)	–	(46,523,010)
Gross profit	4,277,378	3,927,382	–	1,235,619	(4,555)	–	9,435,824
Profit from operating activities	2,265,351	541,853	–	855,815	376,388	–	4,039,407
Finance costs	(29,562)	(38,595)	–	(297,342)	(1,126,836)	–	(1,492,335)
Share of profits and losses of:							
Joint ventures	5,251	–	–	–	1,372	–	6,623
Associates	3,413,505	(1,592)	1,412,463	7,147	111,750	–	4,943,273
Profit/(loss) before tax	5,654,545	501,666	1,412,463	565,620	(637,326)	–	7,496,968
Income tax	(362,951)	(219,108)	–	(242,978)	(32,686)	–	(857,723)
Profit/(loss) for the year	5,291,594	282,558	1,412,463	322,642	(670,012)	–	6,639,245
Segment profit/(loss) attributable to shareholders of the Company	5,255,196	64,866	1,412,463	198,373	(695,015)	–	6,235,883
Segment assets	75,369,165	20,943,657	7,689,266	30,552,161	20,956,757	(10,802,245)	144,708,761
Segment liabilities	19,027,517	6,899,377	–	13,072,277	48,472,909	(10,802,245)	76,669,835
Other segment information:							
Reversal of provision for onerous contracts	–	–	–	121,978	–	–	121,978
Interest income	71,814	30,467	–	91,970	27,482	–	221,733
Depreciation	1,343,455	976,170	–	570,165	39,262	–	2,929,052
Amortisation of operating concessions	–	–	–	95,501	–	–	95,501
Amortisation of other intangible assets	24,959	–	–	217,454	2,094	–	244,507
Impairment against segment assets, net*	9,537	7,505	–	96,582	25,507	–	139,131
Investments in joint ventures	219,770	–	–	120,310	5,862	–	345,942
Investments in associates	24,201,749	177,221	7,630,848	68,342	692,994	–	32,771,154
Capital expenditure**	2,986,602	953,232	–	659,488	73,260	–	4,672,582

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2015 (restated)

	Piped gas operation HK$'000	Brewery operation HK$'000	Water and environmental operations HK$'000	Solid waste treatment operations HK$'000	Corporate and others HK$'000	Inter–segment elimination HK$'000	Consolidated HK$'000
Segment revenue	43,946,315	14,069,445	–	2,055,370	78,815	–	60,149,945
Cost of sales	(39,737,004)	(9,574,879)	–	(1,759,611)	(27,403)	–	(51,098,897)
Gross profit	4,209,311	4,494,566	–	295,759	51,412	–	9,051,048
Profit from operating activities	2,085,964	761,446	–	332,565	51,833	–	3,231,808
Finance costs	(102,379)	(79,752)	–	(138,533)	(981,199)	–	(1,301,863)
Share of profits and losses of:							
Joint ventures	(4,191)	–	–	–	4,008	–	(183)
Associates	3,374,838	6,259	1,077,087	–	249,928	–	4,708,112
Profit/(loss) before tax	5,354,232	687,953	1,077,087	194,032	(675,430)	–	6,637,874
Income tax	(271,912)	(241,260)	–	(34,303)	(134,486)	–	(681,961)
Profit/(loss) for the year	5,082,320	446,693	1,077,087	159,729	(809,916)	–	5,955,913
Segment profit/(loss) attributable to shareholders of the Company	5,065,227	142,520	1,077,087	97,117	(714,573)	–	5,667,378
Segment assets	71,097,885	22,246,260	7,565,313	16,035,078	11,692,116	(3,870,612)	124,766,040
Segment liabilities	16,663,896	7,174,547	–	11,958,815	24,187,224	(3,870,612)	56,113,870
Other segment information:							
Interest income	40,567	27,184	–	71,567	23,747	–	163,065
Depreciation	1,390,217	1,100,739	–	44,006	38,851	–	2,573,813
Amortisation of operating concessions	–	–	–	68,124	16,214	–	84,338
Amortisation of other intangible assets	26,019	–	–	1,477	10,084	–	37,580
Impairment against segment assets, net*	197,504	12,772	–	–	204,528	–	414,804
Write down to fair value less cost to sell for a disposal group held for sale	–	–	–	–	231,416	–	231,416
Investments in joint ventures	186,757	–	–	–	5,894	–	192,651
Investments in associates	23,202,366	196,406	7,483,795	24,300	692,532	–	31,599,399
Capital expenditure**	3,153,611	731,320	–	165,378	384,478	–	4,434,787

* *These amounts are recognised in the consolidated statement of profit or loss and included impairment/provision (reversal of impairment/provision) against items of property, plant and equipment, investment in an associate, operating concessions, trade and bills receivables and other receivables.*

** *Capital expenditure consists of additions of property, plant and equipment, operating concessions and other intangible assets, excluding assets from the acquisition of subsidiaries.*

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

Geographical information for revenue from external customers is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China. Accordingly, in the opinion of the directors, the presentation of geographical information for revenue would provide no additional useful information to the users of these financial statements.

(b) Non-current assets

	2016	2015
	HK$'000	*HK$'000*
Mainland China	**75,253,522**	75,014,754
Germany	**9,837,156**	–
Elsewhere	**139,526**	128,577
	85,230,204	75,143,331

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

Information about major customers

During each of the years ended 31 December 2016 and 2015, none of the Group's individual customers contributed to 10% or more of the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents: (1) the aggregate of the invoiced value of goods sold, net of value-added tax, consumption tax and government surcharges, and after allowances for returns and trade discounts; and (2) an appropriate proportion of contract revenue of construction contracts and service contracts, net of value-added tax, business tax and government surcharges.

An analysis of revenue, other income and gains, net is as follows:

	2016 HK$'000	2015 HK$'000 (restated)
Revenue		
Piped gas operation	**39,378,983**	43,946,315
Brewery operation	**11,589,905**	14,069,445
Solid waste treatment operation	**4,929,259**	2,055,370
Corporate and others	**60,687**	78,815
	55,958,834	60,149,945

	Notes	2016 HK$'000	2015 HK$'000
Other income			
Bank interest income		**221,733**	163,065
Rental income		**61,050**	81,057
Government grants*		**200,236**	213,046
Transfer of assets from customers	*13*	**63,719**	40,325
Income from forfeiture of deposit received		**–**	77,500
Others		**726,943**	361,538
		1,273,681	936,531
Gains, net			
Fair value gain on investment properties	*14*	**–**	479,798
Gain on disposal of subsidiaries	*46*	**350,209**	–
Gain on disposal of available-for-sale investments carried at fair value, net		**–**	20,617
Foreign exchange differences, net		**–**	27,224
		350,209	527,639
Other income and gains, net		**1,623,890**	1,464,170

* *The government grants represented government subsidies, corporate income tax and turnover tax refunds in respect of the brewery operation. Turnover tax includes value-added tax, city construction tax and education surcharge. The government grants are unconditional, except for certain grants which must be utilised for the relocation of production facilities of the Company's subsidiaries.*

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	**2016 HK$'000**	2015 HK$'000
Cost of inventories sold****		**45,412,928**	49,145,605
Cost of services provided		**938,109**	1,868,954
Depreciation	*13*	**2,929,052**	2,573,813
Amortisation of prepaid land premiums	*15*	**56,609**	65,759
Amortisation of operating concessions*	*17*	**95,501**	84,338
Amortisation of other intangible assets**	*18*	**244,507**	37,580
Research and development expenditure***		**87,004**	84,612
Loss on disposal of items of property, plant and equipment, net		**7,941**	8,523
Loss on disposal of prepaid land premiums		**6,906**	–
Minimum lease payments under operating leases		**240,756**	248,232
Auditors' remuneration		**12,708**	8,800
Employee benefit expense (including directors' remuneration – note 8):			
Salaries, allowances and benefits in kind		**5,380,080**	5,263,974
Net pension scheme contributions		**660,552**	635,174
Net benefit expense of defined benefit plans**	*38(a)*	**185,529**	72,162
		6,226,161	5,971,310
Foreign exchange difference, net		**44,683**	(27,224)
Impairment of items of property, plant and equipment***	*13*	**5,214**	155,832
Fair value loss on derivative component of convertible bond receivables***	*22*	**37,546**	–
Impairment of operating concession***	*17*	**81,535**	189,645
Write down to fair value less cost to sell for a disposal group held for sale ***	*31(a)*	**–**	231,416
Impairment of investment in an associate***	*31(c)*	**–**	76,478
Provision/(reversal of provision) for impairment of trade and bills receivables, net	*26(d)*	**32,089**	(23,765)
Impairment of other receivables, net***	*27(b)*	**20,293**	16,614
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**33,553**	46,230
Reversal of provision for onerous contracts*	*39*	**(121,978)**	–

* *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 an amortisation of other intangible assets of HK$198,450,000 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.*

**** *The "Cost of sales" amount on the face of the consolidated statement of profit or loss included government grants of HK$463,058,000 (2015: Nil) credited to profit or loss during this year ended 31 December 2016. The government grants represented government subsidies for the purchase of liquefied natural gas and are unconditional.*

7. FINANCE COSTS

	Notes	2016 HK$'000	2015 HK$'000
Interest on bank loans and other loans		**612,047**	537,247
Interest on guaranteed bonds and senior notes		**878,329**	767,022
Interest on convertible bonds	37	**–**	438
Total interest expenses		**1,490,376**	1,304,707
Increase in discounted amounts of provision for major overhauls arising from the passage of time	39	**1,959**	–
Total finance costs		**1,492,335**	1,304,707
Less: Interest included in construction in progress		**–**	(2,844)
		1,492,335	1,301,863

8. 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:

	2016 HK$'000	2015 HK$'000
Fees	**2,869**	2,720
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**16,245**	17,559
Pension scheme contributions	**29**	29
	16,274	17,588
	19,143	20,308

8. 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 2016				
Executive directors:				
Mr. Wang Dong	180	3,496	–	3,676
Mr. Hou Zibo	180	2,819	–	2,999
Mr. Zhou Si	180	2,880	–	3,060
Mr. Li Fucheng	400	–	–	400
Mr. Li Yongcheng	174	–	–	174
Mr. E Meng	150	2,514	–	2,664
Mr. Jiang Xinhao	150	2,443	–	2,593
Mr. Tam Chun Fai	150	2,093	29	2,272
	1,564	16,245	29	17,838
Independent non-executive directors:				
Mr. Wu Jiesi	261	–	–	261
Mr. Lam Hoi Ham	261	–	–	261
Mr. Fu Tingmei	261	–	–	261
Mr. Sze Chi Ching	261	–	–	261
Mr. Shi Hanmin*	–	–	–	–
Dr. Yu Sun Say	261	–	–	261
Mr. Ma She*	–	–	–	–
	1,305	–	–	1,305
Total directors' remuneration	2,869	16,245	29	19,143

8. DIRECTORS' REMUNERATION *(Continued)*

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2015				
Executive directors:				
Mr. Wang Dong	180	3,887	–	4,067
Mr. Zhou Si	180	3,307	–	3,487
Mr. Li Fucheng	400	–	–	400
Mr. Hou Zibo	180	3,218	–	3,398
Mr. E Meng	150	2,514	–	2,664
Mr. Jiang Xinhao	150	2,616	–	2,766
Mr. Tam Chun Fai	150	2,017	29	2,196
Mr. Li Yongcheng	150	–	–	150
	1,540	17,559	29	19,128
Non-executive director:				
Mr. Guo Pujin	100	–	–	100
	1,640	17,559	29	19,228
Independent non-executive directors:				
Mr. Wu Jiesi	216	–	–	216
Mr. Lam Hoi Ham	216	–	–	216
Mr. Fu Tingmei	216	–	–	216
Mr. Sze Chi Ching	216	–	–	216
Mr. Shi Hanmin	–	–	–	–
Dr. Yu Sun Say	216	–	–	216
	1,080	–	–	1,080
Total directors' remuneration	2,720	17,559	29	20,308

Mr. Shi Hanmin waived to receive any remuneration from the Company for the years ended 31 December 2016 and 2015. Save as disclosed above, there was no agreement under which a director waived or agreed to waive any remuneration during the year.

* Mr. Shi Hanmin resigned as an independent non-executive director of the Company with effect from 29 December 2016. Mr. Ma She was appointed as an independent non-executive director of the Company with effect from 29 December 2016.

9. FIVE HIGHEST PAID EMPLOYEES

All of the five highest paid employees of the Group during each of the years ended 31 December 2016 and 2015 are directors of the Company, details of whose remuneration for the years are set out in note 8 to the financial statements.

10. INCOME TAX

	Note	**2016** **HK$'000**	2015 *HK$'000*
Current:			
Mainland China		**829,380**	672,620
Hong Kong		**9,088**	4,996
Germany		**313,868**	–
Deferred	*41*	**(294,613)**	4,345
Total tax expense for the year		**857,723**	681,961

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year (2015: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries established in Mainland China are entitled to PRC corporate income tax exemptions and reductions.

10. INCOME TAX *(Continued)*

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:

2016

	Hong Kong		Mainland China		Germany		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	924,476		6,020,300		552,192		7,496,968	
Tax expense at the statutory tax rate	152,544	16.5	1,505,079	25.0	165,658	30.0	1,823,281	24.3
Lower tax rate for specific provinces or enacted by local authority	–	–	(536,435)	(8.9)	–	–	(536,435)	(7.2)
Profits and losses attributable to joint ventures and associates	(330,867)	(35.8)	(448,401)	(7.4)	–	–	(779,268)	(10.4)
Income not subject to tax	(39,078)	(4.2)	(159,892)	(2.7)	(52,353)	(9.5)	(251,323)	(3.4)
Expenses not deductible for tax	226,489	24.5	69,882	1.2	77,186	14.0	373,557	5.0
Withholding tax on the distributable profits of the Group's PRC subsidiaries	–	–	4,309	0.1	–	–	4,309	0.1
Tax losses not recognised as deferred tax assets	–	–	223,602	3.7	–	–	223,602	3.0
Tax expense at the Group's effective tax rate	9,088	1.0	658,144	10.9	190,491	34.5	857,723	11.4

10. INCOME TAX *(Continued)*

2015

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	825,086		5,812,788		6,637,874	
Tax expense at the statutory tax rate	136,139	16.5	1,453,197	25.0	1,589,336	23.9
Lower tax rate for specific provinces or enacted by local authority	–	–	(491,883)	(8.5)	(491,883)	(7.4)
Profits and losses attributable to joint ventures and associates	(286,401)	(34.7)	(405,691)	(7.0)	(692,092)	(10.4)
Income not subject to tax	(63,114)	(7.6)	(106,779)	(1.8)	(169,893)	(2.6)
Expenses not deductible for tax	218,104	26.4	31,667	0.5	249,771	3.8
Withholding tax on the distributable profits of the Group's PRC subsidiaries	–	–	10,919	0.2	10,919	0.2
Tax losses not recognised as deferred tax assets	268	–	185,535	3.2	185,803	2.8
Tax expense at the Group's effective tax rate	4,996	0.6	676,965	11.6	681,961	10.3

The share of tax attributable to joint ventures and associates amounting to HK$8,252,000 (2015: HK$1,906,000) and HK$1,601,453,000 (2015: HK$1,547,333,000), respectively, is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

	2016	2015
	HK$'000	*HK$'000*
Interim – HK$0.30 (2015: HK$0.30) per ordinary share	**378,646**	385,305
Proposed final – HK$0.65 (2015: HK$0.65) per ordinary share	**820,400**	833,853
	1,199,046	1,219,158

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

12. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of ordinary shares of 1,266,544,776 (2015:1,283,912,186) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2016 and 2015.

13. PROPERTY, PLANT AND EQUIPMENT

	Notes	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000 (note (a))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 (note (b))	Total HK$'000
Year ended 31 December 2016									
At 1 January 2016:									
Cost		12,626,208	104,705	17,623,372	19,126,131	1,131,125	812,920	5,003,314	56,427,775
Accumulated depreciation and impairment		(2,746,410)	(22,283)	(4,245,444)	(10,261,471)	(666,796)	(470,317)	(279,433)	(18,692,154)
Net carrying amount		9,879,798	82,422	13,377,928	8,864,660	464,329	342,603	4,723,881	37,735,621
Net carrying amount:									
At 1 January 2016		9,879,798	82,422	13,377,928	8,864,660	464,329	342,603	4,723,881	37,735,621
Acquisition of subsidiaries	45	1,145,526	202,578	–	5,870,530	46,662	–	41,918	7,307,214
Additions		120,956	2,887	103,304	391,988	65,113	39,392	3,539,903	4,263,543
Transfer of assets from customers	5	–	–	32,477	31,242	–	–	–	63,719
Transfer from construction in progress		1,055,140	–	1,547,566	544,802	17,331	–	(3,164,839)	–
Depreciation provided during the year	6	(477,021)	(1,898)	(805,639)	(1,480,414)	(102,339)	(61,741)	–	(2,929,052)
Impairment during the year recognised in profit or loss	6	–	–	–	(4,693)	(455)	(66)	–	(5,214)
Transfer from assets of disposal groups classified as held for sale		46,965	–	68,645	12,235	897	408	–	129,150
Disposals		(39,313)	(1,804)	–	(23,540)	(1,926)	(1,657)	(88,590)	(156,830)
Exchange realignment		(757,542)	(11,722)	(933,921)	(904,686)	(23,161)	(21,603)	(327,617)	(2,980,252)
At 31 December 2016		10,974,509	272,463	13,390,360	13,302,124	466,451	297,336	4,724,656	43,427,899
At 31 December 2016:									
Cost		14,836,202	294,999	18,140,502	30,835,060	1,294,320	778,133	4,986,197	71,165,413
Accumulated depreciation and impairment		(3,861,693)	(22,536)	(4,750,142)	(17,532,936)	(827,869)	(480,797)	(261,541)	(27,737,514)
Net carrying amount		10,974,509	272,463	13,390,360	13,302,124	466,451	297,336	4,724,656	43,427,899

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

	Notes	Land and buildings *HK$'000*	Leasehold improve-ments *HK$'000*	Gas pipelines *HK$'000*	Gas metres and other plant and machinery *HK$'000* *(note (a))*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000* *(note (b))*	Total *HK$'000*
Year ended 31 December 2015									
At 1 January 2015:									
Cost		12,620,072	104,965	17,962,726	18,082,715	1,131,266	865,789	5,711,228	56,478,761
Accumulated depreciation and impairment		(2,546,834)	(20,466)	(3,829,816)	(9,538,500)	(616,846)	(458,049)	(147,720)	(17,158,231)
Net carrying amount		10,073,238	84,499	14,132,910	8,544,215	514,420	407,740	5,563,508	39,320,530
Net carrying amount:									
At 1 January 2015		10,073,238	84,499	14,132,910	8,544,215	514,420	407,740	5,563,508	39,320,530
Acquisition of subsidiaries	*45*	15,106	–	42,837	22,750	5,224	2,619	23,269	111,805
Additions		146,749	462	76,535	219,994	53,461	36,872	3,429,125	3,963,198
Transfer of assets from customers	*5*	–	–	20,911	19,414	–	–	–	40,325
Transfer from construction in progress		760,383	–	1,102,874	1,968,940	7,914	4,935	(3,845,046)	–
Fair value gain on revaluation of a building upon transfer to investment properties		29,685	–	–	–	–	–	–	29,685
Transferred to investment properties	*14*	(57,091)	–	–	–	–	–	–	(57,091)
Depreciation provided during the year	*6*	(400,546)	(2,346)	(715,986)	(1,291,018)	(94,338)	(69,579)	–	(2,573,813)
Impairment during the year recognised in profit or loss	*6*	–	–	–	–	–	–	(155,832)	(155,832)
Transfer to assets of disposal groups classified as held for sale		(174,093)	–	(595,555)	(114,354)	(6,055)	(14,643)	(47,503)	(952,203)
Disposals		(21,560)	–	(442)	(61,707)	(126)	(7,717)	–	(91,552)
Exchange realignment		(492,073)	(193)	(686,156)	(443,574)	(16,171)	(17,624)	(243,640)	(1,899,431)
At 31 December 2015		9,879,798	82,422	13,377,928	8,864,660	464,329	342,603	4,723,881	37,735,621
At 31 December 2015:									
Cost		12,626,208	104,705	17,623,372	19,126,131	1,131,125	812,920	5,003,314	56,427,775
Accumulated depreciation and impairment		(2,746,410)	(22,283)	(4,245,444)	(10,261,471)	(666,796)	(470,317)	(279,433)	(18,692,154)
Net carrying amount		9,879,798	82,422	13,377,928	8,864,660	464,329	342,603	4,723,881	37,735,621

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

Notes:

(a) At 31 December 2015, plant and machinery of the Group situated in Mainland China with a net carrying amount of HK$77,381,000 were pledged to secure bank loans granted to the Group (note 35(c)(ii)).

(b) At 31 December 2016, land of the Group situated in Germany with a net carrying amount of HK$106,312,000 (2015: Nil) were pledged to secure bank loans granted to the Group (note 35(c)(iii)).

(c) During the year ended 31 December 2015, construction in progress of the Group amounting to HK$155,832,000 were individually determined to be impaired with an aggregate carrying amount before impairment of HK$155,832,000 (note 6). The impairment of HK$155,832,000 represented the carrying amounts of construction of gas pipelines which had been suspended and the recoverable amounts are expected to be minimal.

14. INVESTMENT PROPERTIES

	Notes	2016 HK$'000	2015 HK$'000
Carrying amount at 1 January		**1,194,258**	703,749
Transfer from property, plant and equipment	13	**–**	57,091
Net gain from a fair value adjustment	5	**–**	479,798
Exchange realignment		**(60,968)**	(46,380)
Carrying amount at 31 December		**1,133,290**	1,194,258

Notes:

(a) The investment properties are leased to third parties under operating leases. Further details are included in note 49 (a) to the financial statements.

(b) At 31 December 2016, the investment properties were revalued based on valuations performed by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, using investment method and direct comparison method. No fair value gain was recognised on the Group's investment properties during the year ended 31 December 2016 (2015: HK$479,798,000).

(c) 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's chief financial officer holds discussion with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for the purpose of annual financial reporting.

14. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

Fair value hierarchy disclosure

The following table illustrates the fair value measurement of the Group's investment properties using:

	Fair value measurement using significant unobservable inputs (Level 3)	
	2016	2015
	HK$'000	*HK$'000*
Recurring fair value measurement for:		
Office buildings	**1,133,290**	1,194,258

The fair values of all the Group's investment properties were revalued by reference to significant unobservable inputs (Level 3).

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 (2015: Nil). The definitions of Level 1, Level 2 and Level 3 are explained under the heading of "Fair value measurement" in note 2.4 to the financial statements.

In the opinion of the directors, for all investment properties that are measured at fair value, the current use of the properties is their highest and best use.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques*	Significant unobservable inputs	Range or weighted average	
			2016	2015
Office buildings	Investment method and direct comparison method	Estimated rental value per square metre and per month (HK$)	**79 to 389**	85 to 386
		Capitalisation rate	**8% to 8.5%**	8% to 8.5%
		Price per square metre (HK$)	**8,909 to 49,302**	8,327 to 52,189

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

Significant increases/(decreases) in estimated rental value or price per square metre in isolation would result in a significant higher/(lower) fair value of the investment properties. Significant increases/(decreases) in the capitalisation rate in isolation would result in a significant lower/(higher) fair value of the investment properties.

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

15. PREPAID LAND PREMIUMS

	Note	2016 HK$'000	2015 HK$'000
Carrying amount at 1 January		**1,933,254**	2,004,100
Additions		**25,713**	90,958
Disposal		**(219,855)**	–
Amortisation provided during the year	6	**(56,609)**	(65,759)
Exchange realignment		**(116,226)**	(96,045)
Carrying amount at 31 December		**1,566,277**	1,933,254
Portion classified as current assets		**(36,371)**	(45,222)
Non-current portion		**1,529,906**	1,888,032

16. GOODWILL

	Note	2016 HK$'000	2015 HK$'000
Cost and net carrying amount:			
At 1 January		**8,927,959**	8,899,765
Acquisition of subsidiaries	45	**7,213,937**	143,171
Transfer to assets of disposal groups held for sale		**–**	(78,026)
Exchange realignment		**(369,620)**	(36,951)
At 31 December		**15,772,276**	8,927,959

16. 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	2016 HK$'000	2015 HK$'000
Piped gas operation	*(i)*	**6,998,880**	7,006,013
Brewery operation	*(ii)*	**449,053**	481,128
Solid waste treatment operation	*(iii)*	**8,256,812**	1,368,697
Others		**67,531**	72,121
		15,772,276	8,927,959

Notes:

(i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by Crowe Horwath (HK) Consulting & Valuation Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on 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 projections is 10.6% (2015: 10%), which is determined by reference to average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 3% (2015: 3%) is used for the perpetual period.

(ii) Goodwill attributable to the brewery operation mainly arose from the Group's investments in Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), the recoverable amount of which was determined on the fair value less costs to sell basis by reference to the market value of the shares of Yanjing Brewery held by the Group (as categorised within Level 1 of the fair value hierarchy) as at 31 December 2016.

(iii) Goodwill attributable to the solid waste treatment operation mainly arose from the Group's investment in EEW (as defined in note 1 to the financial statements) and Golden State Waste Management Corporation ("GSWM"), which was acquired by the Group in March 2016 and December 2014, respectively.

The recoverable amounts of the solid waste treatment operation in Germany has been determined by reference to business valuations performed by Crowe Horwath (HK) Consulting & Valuation Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on financial forecasts approved by the senior management.

The recoverable amounts of the solid waste treatment operation in the PRC has been determined based on value in use calculation using cash flow projections which are based on financial forecast prepared by the management.

The financial forecast of EEW adopted the assumptions that the scale of the operation remains constant perpetually and the operation can generate cash flows perpetually from the relating solid waste treatment projects. The discount rate applied to the cash flow projections is 9%, which is determined by reference to average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 3% is used for the perpetual period.

The financial forecast of GSWM adopted the assumptions that the scale of the operation remains constant perpetually and the operation can generate cash flows perpetually from the relating solid waste treatment projects. The discount rate applied to the cash flow projections is 10.2% (2015: 10.7%), which is determined by reference to average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 3% is used for the perpetual period (2015: 2.5% for the concession period).

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2016 (2015: Nil). Details of the impairment testing of goodwill in respect of disposal groups classified as held for sale are set out in note 31(a) to the financial statements.

Key assumptions used in value in use calculation

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

- Budgeted turnover
  The budgeted turnover is based on the projected piped gas sales volume.

- Budgeted gross margins
  In respect of the relevant business units in the piped gas operation segment, the budgeted gross margins is based on the latest gas selling price up to the date of the valuation report.

- Discount rate
  The discount rates used is before tax and reflect specific risks relating to the piped gas operation.

- 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.

  - As the gas supply network has already been set up in most urban areas in Beijing, where the Group's piped gas operation is located, and due to the high degree of unique features of the gas supply business, the high construction and fixed costs in establishing alternative gas supply network in these 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.

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in value in use calculation (Continued)

Solid waste treatment operation

- Budgeted turnover
  The budgeted turnover is based on the projected solid waste treatment volume and the latest solid waste treatment and electricity, steam and heats selling prices up to the date of the forecast.

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

- Discount rate
  The discount rates used are before tax and reflect specific risks relating to the relevant unit.

- Business environment
  There will be no major changes in the existing political, legal and economic conditions in Germany and Mainland China.

17. SERVICE CONCESSION ARRANGEMENTS

The Group operates a number of service concession arrangements with governmental authorities in Mainland China on a BOT or a Transfer-Operate-Transfer ("TOT") basis in respect of its toll road operation and solid waste treatment operations. These service concession arrangements generally involve the Group as an operator (i) constructing the infrastructures for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the infrastructures at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 15 to 30 years (the "service concession periods"). The Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to, where appropriate, use all the property, plant and equipment of the infrastructures, however, the relevant governmental authorities as grantors will control and regulate the scope of services the Group must provide with the infrastructures, and retain the beneficial entitlement to any residual interest in the infrastructures at the end of the term of the service concession periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authorities in Mainland China that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the infrastructures to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes. The accounting policies in respect of the classification of the service concession arrangements between intangible assets (operating concessions) and financial assets (receivables under service concession arrangements) are set out under the heading of "Service concession arrangements" in note 2.4 to the financial statements.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Operating concessions

	Notes	**2016** **HK$'000** *(note (a))*	2015 *HK$'000* *(note (a))*
At 1 January:			
Cost		**3,891,890**	3,671,935
Accumulated amortisation and impairment		**(1,641,364)**	(1,412,808)
Net carrying amount		**2,250,526**	2,259,127
Net carrying amount:			
At 1 January		**2,250,526**	2,259,127
Additions		**722,140**	386,227
Amortisation provided during the year	*6*	**(95,501)**	(84,338)
Impairment	*6*	**(81,535)**	(189,645)
Exchange realignment		**(129,580)**	(120,845)
At 31 December		**2,666,050**	2,250,526
At 31 December:			
Cost		**4,299,346**	3,891,890
Accumulated amortisation and impairment		**(1,633,296)**	(1,641,364)
Net carrying amount		**2,666,050**	2,250,526

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2016 HK$'000	2015 HK$'000
Receivables under service concession arrangements attributable to solid waste treatment operation *(notes (a)(i) and (b))*	**1,669,102**	1,790,765
Portion classified as current assets	**(70,673)**	(135,675)
Non-current portion	**1,598,429**	1,655,090

Notes:

(a) The operating concessions of the Group are mainly attributable to solid waste treatment operation and toll road operation and details of the service concession arrangements are as follows:

(i) At 31 December 2016, the Group had 9 (2015: 9) service concession arrangements on solid waste treatment with certain governmental authorities in Mainland China.

At 31 December 2016, certain 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$618,648,000 (2015: HK$1,163,953,000) were pledged to secure certain bank loans granted to the Group (note 35(c)(i)).

(ii) Pursuant to a co-operative joint venture agreement dated 18 July 2001 entered into between Hong Kong Zhong Ji Facility Investment Co., Ltd., a 96.5% indirectly-held subsidiary of the Company, and 深圳市石觀公路有限公司 ("Shiguan Road Limited") for the establishment of Shenzhen Guanshun Road & Bridge Co., Ltd. ("Shenzhen Guanshun", a 53.08% indirectly-held subsidiary of the Company), and as approved by the relevant government authorities, Shiguan Road Limited transferred to Shenzhen Guanshun for a total consideration of RMB652 million an operating right to operate the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC, for a period of 20 years commenced on 12 April 2002.

The Group was ordered by the Shenzhen Municipal Government to cease charging the public for the use of the Shenzhen Shiguan Road and Bridge operated by Shenzhen Guanshun by 31 December 2011.

The Group has been negotiating with the relevant government authorities in Shenzhen to work out a scheme relating to severance, compensation and all other matters to prepare for the cessation of the toll road operation of Shenzhen Guanshun, however, no concrete detail of the scheme has been agreed as at the date of approval of these financial statements. In the opinion of the directors, recoverability of the compensation is remote and therefore an impairment provision against the operating concession in respect of the Shenzhen Shiguan Road and Bridge of HK$189,645,000 has been recognised during the year ended 31 December 2015.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: (Continued)

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

An aged analysis of receivables under service concession arrangements as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	2016	2015
	HK$'000	*HK$'000*
Billed:		
Within one year	**21,969**	29,568
Unbilled	**1,647,133**	1,761,197
	1,669,102	1,790,765
Portion classified as current assets	**(70,673)**	(135,675)
Non-current portion	**1,598,429**	1,655,090

An aged analysis of the billed receivables under service concession arrangements that were neither individually nor collectively considered to be impaired is as follows:

	2016	2015
	HK$'000	*HK$'000*
Less than one year past due	**21,969**	29,568

18. OTHER INTANGIBLE ASSETS

	Notes	Patents HK$'000	Operating right HK$'000	Computer software HK$'000	Customer contracts HK$'000	Total HK$'000
Year ended 31 December 2016						
At 1 January 2016:						
Cost		52,491	80,576	280,942	–	414,009
Accumulated amortisation		(1,055)	(4,660)	(125,450)	–	(131,165)
Net carrying amount		51,436	75,916	155,492	–	282,844
Net carrying amount:						
At 1 January 2016		51,436	75,916	155,492	–	282,844
Acquisition of subsidiaries	45	–	–	11,254	3,447,018	3,458,272
Additions		–	–	70,142	–	70,142
Amortisation provided during the year	6	(2,094)	(3,444)	(40,519)	(198,450)	(244,507)
Exchange alignment		(735)	(13,387)	(11,349)	(185,317)	(210,788)
At 31 December 2016		48,607	59,085	185,020	3,063,251	3,355,963
At 31 December 2016:						
Cost		49,866	66,050	389,193	3,251,535	3,756,644
Accumulated amortisation		(1,259)	(6,965)	(204,173)	(188,284)	(400,681)
Net carrying amount		48,607	59,085	185,020	3,063,251	3,355,963

18. OTHER INTANGIBLE ASSETS *(Continued)*

	Notes	Patents HK$'000	Operating right HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2015					
At 1 January 2015:					
Cost		55,116	84,605	192,124	331,845
Accumulated amortisation		(851)	(2,355)	(91,661)	(94,867)
Net carrying amount		54,265	82,250	100,463	236,978
Net carrying amount:					
At 1 January 2015		54,265	82,250	100,463	236,978
Acquisition of subsidiaries	45	–	–	44,014	44,014
Additions		–	–	85,362	85,362
Transfer to assets of disposal groups classified as held for sale		–	–	(34,080)	(34,080)
Amortisation provided during the year	6	(2,094)	(3,444)	(32,042)	(37,580)
Exchange alignment		(735)	(2,890)	(8,225)	(11,850)
At 31 December 2015		51,436	75,916	155,492	282,844
At 31 December 2015:					
Cost		52,491	80,576	280,942	414,009
Accumulated amortisation		(1,055)	(4,660)	(125,450)	(131,165)
Net carrying amount		51,436	75,916	155,492	282,844

19. INTERESTS IN JOINT VENTURES

	Notes	2016 HK$'000	2015 HK$'000
Investments in joint ventures, included in non-current assets:			
Share of net assets	*(a)*	**345,942**	192,651
Due from joint ventures, included in current assets	*27*	**179,916**	78,571
Interests in joint ventures		**525,858**	271,222

Note (a): The following tables illustrate the aggregate financial information of the Group's joint ventures that are not individually material:

	2016 HK$'000	2015 HK$'000
Share of the joint ventures' profit/(loss) and total comprehensive income/(loss) for the year	**6,623**	(183)
Share of net assets of the joint ventures recognised by the Group	**345,942**	192,651

20. INTERESTS IN ASSOCIATES

	Notes	2016 HK$'000	2015 HK$'000
Investments in associates, included in non-current assets:			
Share of net assets	*(b)*	**24,528,386**	23,690,025
Investment deposits		**204,916**	219,552
Goodwill on acquisition	*(b), (c)*	**8,037,852**	7,689,822
		32,771,154	31,599,399

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

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

Company name	Place of incorporation/ registration and business	Particulars of issued shares held	Percentage of: Ownership interest attributable to the Group	Percentage of: Voting power	Percentage of: Profit sharing	Principal activities
中石油北京天然氣 管道有限公司 ("PetroChina Beijing Gas")	PRC/ Mainland China	Issued capital	40	40	40	Provision of natural gas transmission services
BE Water[π]	Bermuda/ Hong Kong	Ordinary shares	43.77	43.77	43.77	Sewage treatment, reclaimed water treatment, water distribution and construction services
China Gas Holdings Limited ("China Gas")[Ω]	Bermuda/ Hong Kong	Ordinary shares	22.95	22.95	22.95	Distribution and sale of piped natural gas, sale of liquefied petroleum gas and gas connection

π BE Water is a listed company 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 2016, based on its then quoted market price, amounted to approximately HK$19,733,601,000 (2015: HK$20,766,285,000).

During the year ended 31 December 2016, the Group's equity interest in BE Water was diluted from 43.84% to 43.77% upon the (i) exercise of 34,214,000 share options by certain option holders of BE Water, resulting in the issue of 34,214,000 ordinary shares and a gain on deemed disposal of HK$4,387,000 was recognised by the Group; and (ii) repurchase and cancellation of 19,296,000 ordinary shares by BE Water.

During the year ended 31 December 2015, the Group's equity interest in BE Water was diluted from 43.92% to 43.84% upon the exercise of 15,524,000 share options by certain option holders of BE Water, resulting in the issue of 15,524,000 shares and a gain on deemed disposal of HK$2,390,000 was recognised by the Group.

Ω China Gas is a listed company 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 2016, based on its then quoted market price, amounted to approximately HK$11,771,135,000 (2015: HK$12,598,073,000).

During the year ended 31 December 2016, the Group's equity interest in China Gas increased from 22.7% to 22.95% upon the repurchase and cancellation of 24,958,000 ordinary shares by China Gas.

During the year ended 31 December 2015, the Group's equity interest in China Gas increased from 22.44% to 22.7% upon the repurchase and cancellation of 37,174,000 ordinary shares by China Gas.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures

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

(i) PetroChina Beijing Gas, which is engaged in the provision of natural gas transmission services in the PRC;

(ii) BE Water, which is an investment holding company and majority of its subsidiaries are principally engaged in the construction of sewage and reclaimed water treatment and seawater desalination plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, the provision of sewage and reclaimed water treatment services, the distribution and sale of piped water, the provision of technical and consultancy services that are related to sewage treatment and construction services for comprehensive renovation projects and the licensing of technical know-how that is related to sewage treatment in the PRC and certain overseas countries; and

(iii) China Gas, which is an investment holding company and majority of its subsidiaries are principally engaged in the distribution and sale of piped natural gas, sale of liquefied petroleum gas, and gas connection in the PRC.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

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

	PetroChina Beijing Gas		BE Water		China Gas*	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current assets	**3,370,266**	651,815	**21,974,889**	18,153,002	**13,245,609**	13,300,586
Non-current assets	**36,288,129**	32,943,386	**59,072,381**	46,338,746	**42,283,127**	39,044,038
Current liabilities	**(11,504,512)**	(3,376,381)	**(20,614,591)**	(17,772,851)	**(21,024,203)**	(17,602,395)
Non-current liabilities	**(760,471)**	(2,124,314)	**(33,665,339)**	(26,428,482)	**(13,261,840)**	(13,758,503)
Net assets	**27,393,412**	28,094,506	**26,767,340**	20,290,415	**21,242,693**	20,983,726
Less: Non-controlling interests	**(8,548)**	(8,008)	**(10,266,198)**	(4,106,582)	**(3,216,298)**	(3,070,536)
Net assets attributable to shareholders of the associates	**27,384,864**	28,086,498	**16,501,142**	16,183,833	**18,026,395**	17,913,190
Reconciliation to the Group's investments in the associates						
Proportion of the Group's ownership	**40%**	40%	**43.77%**	43.84%	**22.95%**	22.70%
Group's share of net assets of the associates, excluding goodwill recognised by the Group	**10,953,946**	11,234,599	**7,222,550**	7,094,992	**4,136,716**	4,065,794
Goodwill on acquisition recognised by the Group	**–**	–	**443,586**	424,091	**7,341,288**	7,264,039
Other reconciling items	**–**	–	**(35,288)**	(35,288)	**–**	–
Carrying amount of the investments	**10,953,946**	11,234,599	**7,630,848**	7,483,795	**11,478,004**	11,329,833

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

	PetroChina Beijing Gas		BE Water		China Gas*	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other disclosures						
Revenues	**13,304,730**	13,738,316	**17,354,833**	13,502,957	**28,169,177**	30,239,778
Profit for the year	**6,979,458**	6,830,564	**3,672,982**	2,769,793	**3,146,126**	3,456,489
Profit for the year attributable to shareholders of the associates	**6,978,362**	6,828,268	**3,227,013**	2,455,370	**2,660,777**	2,903,939
Other comprehensive loss for the year	**–**	–	**(2,665,141)**	(1,657,851)	**(1,007,701)**	(411,042)
Other comprehensive loss for the year attributable to shareholders of the associates	**–**	–	**(2,009,564)**	(1,404,594)	**(736,722)**	(330,587)
Share of the associates' profit for the year	**2,791,345**	2,731,309	**1,412,463**	1,077,087	**588,405**	656,286
Share of the associates' other comprehensive loss for the year	**–**	–	**(879,586)**	(615,733)	**(169,604)**	(75,153)
Dividend received/receivable by the Group	**2,314,856**	2,074,765	**420,671**	351,842	**219,908**	182,374

* The financial statements of China Gas used in applying the equity method for the year ended 31 December 2016 are as of 30 September 2016 or for twelve months ended 30 September 2016 which is not coterminous with that of the Company's financial year end date because the statutory financial year-end date of this associate is 31 March. The financial statements for the twelve months ended 30 September 2016 are the most updated financial statements of China Gas available for equity accounting by the Group.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

The following tables illustrate the aggregate financial information of the Group's associates that are not individually material:

	2016	2015
	HK$'000	*HK$'000*
Share of the associates' profit and total comprehensive income for the year	**151,060**	243,430
Share of net assets of the associates, excluding goodwill recognised by the Group	**2,250,462**	1,329,928
Goodwill on acquisition recognised by the Group	**252,978**	1,692

(c) The movements of the amount of the goodwill included in investments in associates during the year are as follows:

	2016	2015
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**7,689,822**	7,601,527
Acquisition of associates or additional interests in associates	**348,143**	88,666
Exchange realignment	**(113)**	(371)
At 31 December	**8,037,852**	7,689,822

21. FINANCE LEASE RECEIVABLES

One of the Group's solid waste treatment plants in Germany are leased out under finance lease and has remaining lease term of 7.5 years.

	Minimum lease payment		Present value of minimum lease payment	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Finance lease receivables comprises:				
Within one year	**140,665**	–	**135,477**	–
In the second year	**139,925**	–	**125,616**	–
In the third to fifth years, inclusive	**388,937**	–	**303,653**	–
After five years	**686,011**	–	**419,415**	–
Total minimum finance lease receivables	**1,355,538**	–	**984,161**	–
Less: unearned finance income	**(371,377)**	–		
Total net finance lease receivables	**984,161**	–		
Portion classified as current assets	**(135,477)**	–		
Non-current portion	**848,684**	–		

22. DEBT AND DERIVATIVE COMPONENTS OF CONVERTIBLE BONDS RECEIVABLES

On 11 May 2016, pursuant to the convertible bond agreement (the "CB Agreement") dated 5 January 2016 entered into between Beijing Gas, a wholly-owned subsidiary of the Company, and Blue Sky Power Holdings Limited ("Blue Sky"), a company listed on the Main Board of the Hong Kong Stock Exchange (Stock code: 6828). Beijing Gas subscribed the convertible bonds issued by Blue Sky with an aggregate principal amount of HK$350,000,000 and an initial conversion price of HK$0.45 per share (equivalent to 777,777,777 ordinary shares). The convertible bonds bore interest at 4.5% per annum and had a maturity of three years. Blue Sky is principally engaged in sale and distribution of natural gas and other related products in the PRC and is an associate of the Group acquired on the same date.

The convertible bonds were bifurcated into debt and derivative components for accounting purpose. The Group classified the debt component as loans and receivables and the derivative component was deemed as held for trading and recognised at fair value through profit or loss on initial recognition with changes in fair value recognised in profit or loss subsequently.

On 30 December 2016, the Group had exercised its conversion option and converted an aggregate principal amount of HK$220,000,000 to 488,888,889 ordinary shares of Blue Sky at the conversion price of HK0.45 per share. The remaining aggregate principal amount of the convertible bonds receivables was HK$130,000,000 as at 31 December 2016.

As at 31 December 2016, the carrying amount of debt component of convertible bond receivables amounted to HK$83,107,000.

The fair value of the derivative component of convertible bonds as at 31 December 2016 amounted to HK$40,376,000 and was determined by the directors of the Company with reference to the valuation performed by independent qualified valuers, Crowe Horwath (HK) Consulting & Valuation Limited. The changes in the fair value of the derivative component of convertible bond amounting to HK$37,546,000 were charged to profit or loss during the year.

In the opinion of the directors, since the financial impact of the derivative component of convertible bond receivables is insignificant, information in respect of the valuation techniques, assumptions and key inputs to the valuation of this instrument is not disclosed in the financial statements.

23. AVAILABLE-FOR-SALE INVESTMENTS

	2016 *HK$'000*	2015 *HK$'000*
Listed equity investments, at fair value	**517,753**	584,721
Unlisted equity investments, at cost	**2,665,140**	439,194
Impairment	**(11,358)**	(11,358)
	3,171,535	1,012,557

The unlisted equity investments of the Group are not stated at fair value but at cost because they do not have a quoted market price in an active market, the range of reasonable fair value estimates is significant for these investments and the probabilities of the various estimates cannot be reasonably assessed.

24. INVENTORIES

	2016 *HK$'000*	2015 *HK$'000*
Raw materials	**4,061,085**	3,832,704
Work in progress	**480,664**	383,687
Finished goods	**411,200**	427,808
	4,952,949	4,644,199

25. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	2016 HK$'000	2015 HK$'000
Amounts due from contract customers:		
Non-current portion	**9,943**	388,771
Current portion	**23,335**	39,623
	33,278	428,394
Amounts due to contract customers	**(322,684)**	(329,589)
	(289,406)	98,805
Contract costs incurred plus recognised profits less recognised losses to date	**538,512**	868,550
Less: Progress billings received and receivable	**(827,918)**	(769,745)
	(289,406)	98,805

26. TRADE AND BILLS RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade and bills receivables	**3,872,752**	3,721,749
Impairment *(note (d))*	**(195,595)**	(177,294)
	3,677,157	3,544,455

Notes:

(a) Included in the Group's trade and bills receivables as at 31 December 2016 was an aggregate amount of HK$57,857,000 (2015: HK$95,612,000) and HK$168,700,000 (2015: Nil) due from certain 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) As at 31 December 2016, trade receivables amounted to HK$100,110,000 were pledged to secure certain bank loans (note 35(c)(iv)).

(c) The various group companies have different credit policies, depending on the requirements of their markets and the businesses in which they operate. Aged analysis of trade and bills receivables are 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 and bills receivables.

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

	2016 HK$'000	2015 HK$'000
Billed:		
Within one year	**2,435,956**	1,733,227
One to two years	**54,286**	46,493
Two to three years	**30,323**	13,489
Over three years	**39,584**	35,677
	2,560,149	1,828,886
Unbilled	**1,117,008**	1,715,569
	3,677,157	3,544,455

26. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: (Continued)

(d) The movements in the Group's provision for impairment of trade and bills receivables during the year are as follows:

		2016	2015
	Note	***HK$'000***	*HK$'000*
At 1 January		**177,294**	257,534
Provision/(reversal of provision) for impairment, net	*6*	**32,089**	(23,765)
Amount written off as uncollectible		**(464)**	(46,728)
Exchange realignment		**(13,324)**	(9,747)
At 31 December		**195,595**	177,294

The above provision for impairment of trade and bills receivables represented provision for individually impaired trade and bills receivables with an aggregate carrying amount of HK$242,560,000 (2015: HK$194,190,000). The individually impaired trade receivables relate to customers that were in financial difficulties or were in default or delinquency in principal payments and only a portion of the receivables is expected to be recovered.

The aged analysis of the billed trade and bills receivables as at the end of the reporting period that are not considered to be impaired is as follows:

	2016	2015
	HK$'000	*HK$'000*
Neither past due nor impaired	**2,223,117**	1,653,237
Less than one year past due	**124,733**	68,952
More than one year past due	**165,334**	89,801
	2,513,184	1,811,990

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that either have a good track record with the Group or are in negotiation with the Group over the amounts or terms of repayment. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and/or the balances are still considered fully recoverable.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2016 HK$'000	2015 HK$'000
Prepayments	(a)(iii),(iv)	**2,876,044**	3,636,967
Deposits and other receivables	(a)(i),(ii),(vi)	**2,082,471**	1,771,971
Due from associates	(a)(v)	**2,219,846**	–
Due from holding companies	28	**292,186**	1,449,844
Due from fellow subsidiaries	28	**165,064**	113,735
Due from joint ventures	19, 28	**179,916**	78,571
Due from related parties	28	**46,546**	131,277
		7,862,073	7,182,365
Impairment	(b)	**(138,952)**	(126,496)
		7,723,121	7,055,869
Portion classified as current assets		**(4,781,741)**	(3,835,300)
Non-current portion		**2,941,380**	3,220,569

Notes:

(a) The Group's prepayments, deposits and other receivables as at 31 December 2016 and 2015 include, inter alia, the following:

(i) certain deposits of HK$171,761,000 (2015: HK$98,911,000) in total were paid for the construction or purchase of buildings, pipelines, equipment and machinery. The deposits were classified as non-current assets;

(ii) an amount of RMB600 million (equivalent to approximately HK$750 million) was advanced to a local government authority for an investment in a wastage treatment plant project in Haidian district in Beijing, the PRC as at 31 December 2015. The amount was unsecured and bore interest at 8.5% per annum. The advance was fully repaid by the local government authority during the year ended 31 December 2016;

(iii) an amount of RMB2,016 million (equivalent to approximately HK$2,400 million) prepaid to a capital investment fund for investing in a company engaged in piped gas transportation as at 31 December 2015 and the amount was transferred to available-for-sale investments upon the subscription of the fund during the current year;

(iv) an amount of RMB1,900 million (equivalent to approximately HK$2,111 million) prepaid for the subscription of 176 million shares (1.95% of the total issued shares) in CNPC Capital Company Limited, a company listed on the Shenzhen Stock Exchange and engaged in financial services business as at 31 December 2016. The amount was recognised as prepayment for acquisition of available-for-sale investments as at 31 December 2016 and was classified as non-current assets;

(v) dividend of HK$2.2 billion receivable from Petrochina Beijing Gas. The amount was received in January 2017; and

(vi) a deposit of EUR27 million (equivalent to approximately HK$220 million) (2015: Nil) were paid to a bank for securing certain bank facilities granted. Such depoist will be refunded upon the expiry of the banking facilities (note 35(c)(v)).

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

Notes: (Continued)

(b) The movements in provision for impairment during the year are as follows:

	Note	2016 HK$'000	2015 HK$'000
At 1 January		**126,496**	114,821
Impairment losses recognised	*6*	**20,293**	16,614
Exchange realignment		**(7,837)**	(4,939)
At 31 December		**138,952**	126,496

The above provision for impairment of other debtors of the Group represented provision for individually impaired other debtors with an aggregate carrying amount of HK$142,614,000 (2015: HK$147,544,000).

(c) Other than those mentioned above, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

28. DUE FROM/(TO) HOLDING COMPANIES/FELLOW SUBSIDIARIES/JOINT VENTURES/ RELATED PARTIES

The amounts due from/(to) holding companies, fellow subsidiaries, joint ventures and related parties are unsecured, interest-free and have no fixed terms of repayment, except for an aggregate amount of RMB78,400,000 (equivalent to HK$87,111,000) (2015: RMB40,000,000 (equivalent to HK$47,619,000)) due from a joint venture, which is unsecured, bears interest at a range from 3.92% to 4.35% per annum and is repayable within one year. Interest income of RMB2,430,000 (equivalent to HK$2,700,000) (2015: RMB2,040,000 (equivalent to HK$2,519,000)) was recognised in profit or loss in respect of the balance.

The balances with holding companies, fellow subsidiaries, joint ventures and related parties of the Group included in trade and bills receivables, deposits and other receivables, trade and bills payables, and other payables are disclosed in notes 26(a), 27, 42 and 43 to the financial statements, respectively.

29. RESTRICTED CASH AND PLEDGED DEPOSITS

	Notes	**2016** **HK$'000**	2015 HK$'000
Restricted cash	*(a)*	**30,932**	28,526
Pledged deposits	*(b)*	**25,615**	44,477
Restricted cash and pledged deposits		**56,547**	73,003

Notes:

(a) Restricted cash of the Group mainly represented the proceeds from a government surcharge of HK$26,624,000 (2015: HK$28,526,000) collected prior to 2003 by Beijing Gas, a wholly-owned subsidiary indirectly held the Company, from piped gas customers on behalf of 北京市發展和改革委員會 (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 43(a)).

(b) bank balances of HK$25,615,000 (2015: HK$44,477,000) as at 31 December 2016 were pledged to secure certain bank loans (note 35(c)(v)) granted to the Group.

30. CASH AND CASH EQUIVALENTS

	2016 *HK$'000*	2015 *HK$'000*
Cash and bank balances:		
Placed in banks	**9,110,546**	8,097,898
Placed in a financial institution *(note 51(a)(ix))*	**2,196,315**	1,345,140
Time deposits:		
Placed in banks	**3,248,156**	2,025,618
Placed in a financial institution *(note 51(a)(ix))*	**1,473,082**	2,298,151
	16,028,099	13,766,807
Less: Restricted cash and pledged deposits *(note 29)*	**(56,547)**	(73,003)
Cash and cash equivalents	**15,971,552**	13,693,804

Notes:

(a) At 31 December 2016, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$10.8 billion (2015: HK$9.4 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 earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

31. ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

The major classes of assets and liabilities classified as held for sale are as follows:

	2016			2015			
	Beijing Gas Development	**Others**	**Total**	GSWG	Beijing Gas Development	Others	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note (b))	*(note (c))*		*(note (a))*	*(note (b))*	*(note (c))*	
Assets							
Property, plant and equipment	**727,006**	**–**	**727,006**	28,209	946,515	5,688	980,412
Prepaid land premium	**–**	**–**	**–**	8,081	–	–	8,081
Goodwill	**72,824**	**–**	**72,824**	579,346	78,026	–	657,372
Operating concession	**–**	**–**	**–**	317,687	–	–	317,687
Other intangible assets	**24,773**	**–**	**24,773**	–	32,960	1,120	34,080
Investments in associates	**458,678**	**1,888,889**	**2,347,567**	734,174	480,609	2,025,316	3,240,099
Investments in joint ventures	**–**	**–**	**–**	81,074	–	12,431	93,505
Available-for-sale investment	**–**	**–**	**–**	2,857	–	–	2,857
Amounts due from contract customers	**–**	**–**	**–**	–	–	833	833
Deferred tax assets	**3,392**	**–**	**3,392**	–	3,916	–	3,916
Inventories	**38,176**	**–**	**38,176**	1,861	74,928	7,947	84,736
Trade and bills receivables	**50,518**	**–**	**50,518**	33,802	41,747	64,907	140,456
Prepayments, deposits and other receivables	**47,054**	**–**	**47,054**	42,964	51,068	52,180	146,212
Other tax recoverable	**33,945**	**–**	**33,945**	–	35,629	–	35,629
Restricted cash and pledged deposits	**–**	**–**	**–**	–	16,726	220	16,946
Cash and bank balances	**225,230**	**–**	**225,230**	93,256	239,674	194,138	527,068
Assets of disposal groups classified as held for sale	**1,681,596**	**1,888,889**	**3,570,485**	1,923,311	2,001,798	2,364,780	6,289,889
Liabilities							
Bank and other borrowings	**(144,444)**	**–**	**(144,444)**	(263,922)	(130,952)	–	(394,874)
Amounts due to contract customers	**–**	**–**	**–**	–	–	(319)	(319)
Trade and bills payables	**(60,718)**	**–**	**(60,718)**	(14,586)	(97,015)	(99,208)	(210,809)
Other payables and accruals	**(5,384)**	**–**	**(5,384)**	(47,956)	(18,758)	(129,860)	(196,574)
Receipts in advance	**(106,678)**	**–**	**(106,678)**	(66)	(168,392)	–	(168,458)
Income tax payables	**(522)**	**–**	**(522)**	(1,582)	–	–	(1,582)
Liabilities directly associated with the assets of disposal groups classified as held for sale	**(317,746)**	**–**	**(317,746)**	(328,112)	(415,117)	(229,387)	(972,616)
Net assets of disposal groups held for sale	**1,363,850**	**1,888,889**	**3,252,739**	1,595,199	1,586,681	2,135,393	5,317,273

31. ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE *(Continued)*

Notes:

(a) The Group acquired the entire equity interests in Golden State Environmental Investment Corporation ("GSEI") in prior years.

GSEI held certain sewage and water treatment projects in the PRC through a wholly-owned subsidiary, Golden State Water Group Corporation ("GSWG") and certain solid waste treatment projects through another wholly-owned subsidiary, namely Golden State Waste Management Corporation ("GSWM").

At 31 December 2014, the Group committed a plan to dispose of the sewage and water treatment projects held by GSWG and had since been identifying potential buyers. Having considered that the equity interest in GSWG was available for immediate sale in its present condition and the sale was expected to be completed within one year, GSWG and its subsidiaries (together, the "GSWG Group") were classified as disposal groups held for sale since 2014.

On 29 July 2016, the Group entered into a share purchase agreement with an independent third party ("the Buyer"), pursuant to which the Group agreed to sell and the Buyer agreed to purchase the entire equity interest in GSWG at a cash consideration of US$296 million (equivalent to approximately HK$2,296 million). The transaction was completed on 30 November 2016.

For the year ended 31 December 2015, the recoverable amount of the sewage and water treatment operation has been determined by reference to a business valuation performed by Crowe Horwath (HK) Consulting & Valuation Limited, independent professionally qualified valuers, on a fair value less costs to sell basis using cash flow projections which are based on financial forecasts approved by the senior management covering the service concession period. The valuation was based on the assumption that the operation can generate cash flows within the respective concession periods of the relating sewage and water treatment projects. The discount rate applied to the cash flow projections was 10.2%, which was determined by reference to average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 3% was used for the concession period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, impairment provision of HK$231,416,000 was considered necessary for the Group's goodwill as at 31 December 2015.

Key assumptions used in fair value less costs to sell calculation

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 for the year ended 31 December 2015:

Sewage and water treatment operation

- Budgeted turnover

  The budgeted turnover was based on the projected sewage and water treatment volume, and the latest sewage and water treatment prices up to the date of the forecast.

31. ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE *(Continued)*

Notes: (Continued)

(a) *(Continued)*

Sewage and water treatment operation *(Continued)*

- Budgeted gross margins

The basis used to determine the value assigned to the budgeted gross margins was the average gross margins achieved in the year immediately before the budget year, increase for expected efficiency improvements, and expected market development.

- Discount rates

The discount rates used were before tax and reflect specific risks relating to the relevant unit.

- Business environment

There would be no major changes in the existing political, legal and economic conditions in Mainland China.

(b) On 26 November 2014, the Group entered into a conditional share purchase agreement with China Gas, pursuant to which the Group conditionally agreed to sell and China Gas conditionally agreed to purchase the entire equity interest in Beijing Gas Development Limited ("Beijing Gas Development", a wholly-owned subsidiary of the Group) at the initial consideration of RMB1,633 million (equivalent to approximately HK$2,064 million), which would be satisfied by China Gas allotting and issuing 149,122,250 ordinary shares to the Group. The transaction was approved by an ordinary resolution at the special general meeting of shareholders of China Gas on 17 March 2015.

On 28 June 2016, the Group entered into an amended and restated share purchase agreement with China Gas, pursuant to which the Group and China Gas agreed to amend the composition of project companies held by Beijing Gas Development and the Group has conditionally agreed to sell and China Gas has conditionally agreed to purchase the entire equity interest in Beijing Gas Development at a revised consideration of RMB1,213 million (equivalent to approximately HK$1,534 million), which would be satisfied by China Gas allotting and issuing 110,823,011 ordinary shares to the Group.

Beijing Gas Development was classified as a disposal group held for sale as at 31 December 2016. The transaction was subsequently completed on 16 February 2017. A total of 110,823,011 shares of China Gas were allotted and issued as consideration to the Group.

(c) On 28 August 2015, the Group entered into a disposal agreement with Beijing Enterprises Group, pursuant to which the Group agreed to sell and Beijing Enterprises Group agreed to purchase the entire equity interest in Keqi Coal-based Gas Company ("Keqi Gas", an 34% owned associate of the Group) at a cash consideration of RMB1,700 million (equivalent to approximately HK$2,024 million). The transaction was approved by the independent shareholders of the Company on 15 January 2016.

Since the consideration for the disposal of Keqi Gas was less than the carrying amount of investment in Keqi Gas of RMB1,762 million (equivalent to approximately HK$2,098 million), in the opinion of the directors, impairment provision of RMB62 million (equivalent to approximately HK$76 million) was considered necessary for the Group's investment in Keqi Gas as at 31 December 2015.

31. ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE *(Continued)*

Notes: (Continued)

(c) *(Continued)*

As at 31 December 2016, the consideration of RMB500 million was received. The Group is in the process of completing the equity transfer procedure at the date of approval of these financial statements and the transaction is expected to complete in 2017. Keqi Gas was classified as disposal group held for sale as at 31 December 2016 and 2015.

32. SHARE CAPITAL

Shares

	2016	2015
	HK$'000	*HK$'000*
Issued and fully paid:		
1,262,153,268 (2015: 1,282,850,268) ordinary shares	30,401,883	30,401,883

A summary of movements in the Company's share capital is as follows:

	Notes	**Number of shares in issue**	**Share capital** *HK$'000*
At 1 January 2015		1,284,350,268	30,401,883
Shares repurchased and cancelled	*(a)*	(1,500,000)	–
At 31 December 2015 and 1 January 2016		1,282,850,268	30,401,883
Shares repurchased in 2015 and cancelled during the year	*(a)*	(1,000,000)	–
Shares repurchased and cancelled	*(b)*	(19,697,000)	–
At 31 December 2016		1,262,153,268	30,401,883

32. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

Notes:

(a) During the year ended 31 December 2015, the Company repurchased a total of 2,500,000 ordinary shares of the Company on the Hong Kong Stock Exchange at a weighted average cost of HK$46.24 per share. The total consideration amounted to approximately HK$115,594,000 (and transaction cost of HK$413,000), which was wholly paid out of retained profits in accordance with section 257 of the Hong Kong Companies Ordinance. 1,500,000 repurchased shares were cancelled by the Company in 2015 and the total amount paid for the repurchase of these shares of HK$69,384,000 had been charged to retained profits of the Company in that year. The remaining 1,000,000 ordinary shares were held by the Company as at 31 December 2015 and the related consideration of HK$46,623,000 had been recorded in the "treasury shares" account.

During the year ended 31 December 2016, the remaining 1,000,000 ordinary shares were cancelled by the Company, and the total amount paid for the repurchase of these shares of HK$46,623,000 has been reclassified from treasury shares account and charged to retained profits of the Company. As at 31 December 2016, the Company no longer had any treasury shares.

(b) During the year ended 31 December 2016, the Company repurchased a total of 19,697,000 ordinary shares of the Company on the Hong Kong Stock Exchange at a weighted average cost of HK$35.62 per share. The total consideration amounted to approximately HK$701,606,000 (and transaction cost of HK$3,446,000), which was wholly paid out of retained profits in accordance with section 257 of the Hong Kong Companies Ordinance. All the repurchased shares were cancelled by the Company during the year and the total amount paid for the repurchase of these shares of HK$705,052,000 has been charged to retained profits of the Company.

33. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which became effective on 17 October 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The purpose of the Scheme is to attract and retain the best quality personnel of the Group for the development of the Group's operations; to provide additional incentives to employees, officers and directors of the Group; and to promote the long term financial success of the Company by aligning the interests of option holders to those of shareholders. The directors of the Company may, at their discretion, invite employees (including executive directors) and non-executive directors of the Company and any of its subsidiaries, to take up share options to subscribe for ordinary shares of the Company at HK$1 per grant of share options.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the total number of ordinary shares of the Company in issue at any time. The total number of ordinary shares of the Company issued and to be issued upon exercise of share options (whether exercised or outstanding) in any 12-month period granted to any one person must not exceed 1% of the total number of ordinary shares of the Company in issue.

A share option granted under the Scheme is personal to the grantee and shall not be assignable or transferable.

33. SHARE OPTION SCHEME *(Continued)*

The period during which a share option granted under the Scheme may be exercised will be determined by the directors at their discretion, save that no share option may be exercised later than 10 years after the grant date. No option may be granted more than 10 years after the date of approval of the Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's ordinary shares on the Hong Kong Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the Company's ordinary shares on the Hong Kong Stock Exchange on the five trading days immediately preceding the date of grant of the share options; and (iii) the nominal value of an ordinary share of the Company.

All share options granted under the Scheme in prior years were either exercised or forfeited in prior years. No share options were granted during the years ended 31 December 2016 and 2015 and there was no share option outstanding under the Scheme as at these dates.

The Scheme lapsed on 17 October 2015. The Company currently does not have any effective share option scheme.

34. 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 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 2016 were distributable in the form of cash dividends.

35. BANK AND OTHER BORROWINGS

	2016 HK$'000	2015 HK$'000
Bank loans:		
Secured	**748,405**	1,026,690
Unsecured	**25,858,887**	9,481,819
	26,607,292	10,508,509
Other loans:		
Secured	**–**	571,429
Unsecured	**4,687,851**	4,231,076
	4,687,851	4,802,505
Total bank and other borrowings	**31,295,143**	15,311,014
Analysed into:		
Bank loans repayable:		
Within one year	**14,623,418**	3,295,019
In the second year	**569,395**	296,309
In the third to fifth years, inclusive	**11,004,352**	6,327,741
Beyond five years	**410,127**	589,440
	26,607,292	10,508,509
Other loans repayable:		
Within one year	**3,795,140**	3,752,946
In the second year	**168,162**	117,384
In the third to fifth years, inclusive	**394,760**	430,145
Beyond five years	**329,789**	502,030
	4,687,851	4,802,505
Total bank and other borrowings	**31,295,143**	15,311,014
Portion classified as current liabilities	**(18,418,558)**	(7,047,965)
Non-current portion	**12,876,585**	8,263,049

35. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

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

	2016	2015
	HK$'000	*HK$'000*
HK$	**13,462,265**	8,851,917
RMB	**3,568,518**	4,169,555
US$	**163,973**	2,284,286
Euro	**14,100,387**	5,256
	31,295,143	15,311,014

(b) Included in the Group's bank and other borrowings are:

(i) amortised cost of an interest-free loan of HK$128,806,000 (2015: HK$138,006,000) granted by a non-controlling equity holder of a subsidiary;

(ii) an aggregate amount of HK$3,370 million (2015: HK$3,400 million) and RMB919 million (equivalent to HK$1,021 million) (2015: RMB884 million (equivalent to HK$1,052 million)) due to an 48.16% owned associate, which bears interest at rates ranging from HIBOR plus 1.05% to 5.32% per annum. Interest expenses of HK$29,549,000 (2015: HK$28,457,000) were recognised in profit or loss during the year (note 51(a)(ix)); and

(iii) certain bank and other loans, with an aggregate carrying amount of HK$168,348,000 (2015: HK$212,893,000), that principally came from proceeds of certain loans granted by three overseas governments and the Asian Development Bank to the PRC government and a number of loans from 北京市財政局 (the Finance Bureau of Beijing) to finance certain of the Group's pipeline construction projects. Except for an interest-free loan of HK$8,412,000 (2015: HK$8,965,000), these loans bear interest at rates ranging from 2% to 6.3% per annum.

35. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(c) The Group's secured bank and other loans were secured by:

(i) mortgages over certain solid waste treatment operation concession rights (comprising property, plant and equipment, operating concessions and receivables under service concession arrangements) for an aggregate net carrying amount of HK$618,648,000 (2015: HK$1,163,953,000) as at 31 December 2016, which are under the management of the Group pursuant to the relevant service concession agreements entered into with the grantors (note 17(a)(i));

(ii) a mortgage over plant and machinery of the Group with a net carrying amount of HK$77,381,000 as at 31 December 2015 (note 13(a)). The respective loan was fully repaid during the year;

(iii) a mortgage over land of the Group with a net carrying amount of HK$106,312,000 (2015: Nil) as at 31 December 2016 (note 13(b));

(iv) the assignment of the Group's trade receivables with an aggregate amount of HK$100,110,000 (2015: Nil) (note 26(b));

(v) a deposit of EUR27 million (equivalent to approximately HK$220 million) (2015: Nil) paid to a bank as at 31 December 2016 (note 27(a)(vi)); and

(vi) the Group's bank balances of HK$25,615,000 (2015: HK$44,477,000) as at 31 December 2016 (note 29(b)).

(d) At 31 December 2016, the bank loans of the Group included a five-year HK$4 billion term loan, a five year HKD$3 billion term loan, a five-year HK$1.94 billion term loan, a five-year HK$1.44 billion term loan and a one-year EUR1.67 billion loan with the related facilities obtained by the Group in 2015, 2016, 2016, 2016 and 2016, respectively, which bear annual interest at HIBOR+1.5%, HIBOR+0.68%, HIBOR+1.06%, HIBOR+0.88% and EURIBOR +0.7%, respectively, and are fully payable on 27 November 2020, 22 November 2021, 7 December 2021, 24 June 2021 and 1 March 2017, respectively.

The loan agreements in respect of the loans outstanding as at 31 December 2016 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.

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

36. GUARANTEED BONDS AND SENIOR NOTES

	Notes	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	2016 HK$'000	2015 HK$'000
2011 First Senior Notes	(a)	US$600	5%	2021	4,589,062	4,584,148
2011 Second Senior Notes	(a)	US$400	6.375%	2041	3,059,375	3,056,099
2012 Senior Notes	(a)	US$800	4.5%	2022	6,141,126	6,134,766
2015 EUR Bonds	(b)	EUR500	1.435%	2020	4,040,754	4,164,482
2015 US Bonds	(c)	US$200	4.99%	2040	1,503,633	1,505,097
					19,333,950	19,444,592

Notes:

(a) On 25 April 2012 and 12 May 2011, Talent Yield Investments Limited and Mega Advance Investments Limited, wholly-owned subsidiaries of the Company, issued senior notes with aggregate principal amounts of US$800 million (the "2012 Senior Notes") and US$1 billion (the "2011 First Senior Notes" for US$600 million and the "2011 Second Senior Notes" for US$400 million), respectively, (collectively, the "Guaranteed Senior Notes") to certain institutional investors. Pursuant to the Guaranteed Senior Notes purchase agreements dated 19 April 2012 and 5 May 2011, respectively, of which, unless redeemed prior to their maturity pursuant to the terms thereof (i) the 2012 Senior Notes, bearing interest at the rate of 4.5% per annum, will mature on 25 April 2022; (ii) the 2011 First Senior Notes, bearing interest at the rate of 5% per annum, will mature on 12 May 2021; and (iii) the 2011 Second Senior Notes, bearing interest at the rate of 6.375% per annum, will mature on 12 May 2041.

(b) On 7 May 2015, Talent Yield Investment (Euro) Limited (a wholly-owned subsidiary of the Company) issued guaranteed bonds with aggregate principal amounts of EUR500,000,000 (the "2015 EUR Bonds") to certain institutional investors. Pursuant to the 2015 EUR Bonds purchase agreements dated 29 April 2015, the 2015 EUR Bonds, unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture, bear interest at the rate of 1.435% per annum and will mature on 7 May 2020.

(c) On 17 December 2015, Top Luxury Investment Limited (a wholly-owned subsidiary of the Company) issued guaranteed bonds with aggregate principal amounts of US$200,000,000 (the "2015 US Bonds") to certain institutional investors. Pursuant to the 2015 US Bonds purchase agreements dated 1 December 2015, the 2015 US Bonds, unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture, bear interest at the rate of 4.99% per annum and will mature on 17 December 2040.

The above bonds and senior notes are all guaranteed by the Company.

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

37. CONVERTIBLE BONDS

Summary information of the Group's convertible bonds is set out as follows:

	Yanjing Brewery Convertible Bonds
Issuance date	15 October 2010
Maturity date	14 October 2015
Original principal amount (RMB'000):	429,804
Coupon rate (per annum)	0.5% – 1.4%
Conversion price per ordinary share of:	
– Yanjing Brewery (RMB)	7.58

For accounting purposes, the convertible bond was bifurcated into a liability component and an equity component or a derivative component, as appropriate, as further described in the accounting policy for "Convertible bonds" set out in note 2.4 to the financial statements. The following tables summarise the movements in the principal amounts, the liability component and derivative component of the Group's convertible bonds during the year ended 31 December 2015:

	Yanjing Brewery Convertible Bonds *HK$'000*
Principal amount outstanding	
At 1 January 2015	83,394
Conversion to ordinary shares of Yanjing Brewery	(80,216)
Redemption of convertible bonds	(3,178)
At 31 December 2015	–
Liability component	
At 1 January 2015	84,556
Interest expense (note 7)	438
Interest paid	(444)
Conversion to ordinary shares of Yanjing Brewery	(80,216)
Redemption of convertible bonds	(3,178)
Exchange realignment	(1,156)
At 31 December 2015	–

37. CONVERTIBLE BONDS *(Continued)*

	Yanjing Brewery Convertible Bonds HK$'000
Derivative component	
At 1 January 2015	7,639
Conversion to ordinary shares of Yanjing Brewery	(7,347)
Exchange realignment	(292)
At 31 December 2015	–

On 15 October 2010, Yanjing Brewery, a subsidiary indirectly held by the Company, issued convertible bonds with an aggregate principal amount of RMB1.13 billion (the "Yanjing Brewery Convertible Bonds") to the then existing shareholders of Yanjing Brewery. The Yanjing Brewery Convertible Bonds were convertible, at the option of the bondholders, into fully-paid ordinary shares of Yanjing Brewery at certain conversion price of RMB21.86 per share of Yanjing Brewery and the conversion period was from 15 October 2010 to 14 October 2015, both dates inclusive. The Yanjing Brewery Convertible Bonds bore interest ranging from 0.5% to 1.4% per annum in each of the annual convertible periods. Further details of the Yanjing Brewery Convertible Bonds were set out in the Company's announcement published on the Chinese website of the Hong Kong Stock Exchange on 12 October 2010.

Based on the terms of the Yanjing Brewery Convertible Bonds, the conversion option of the Yanjing Brewery Convertible Bonds was classified as a derivative financial instrument (a financial liability at fair value through profit or loss) in the financial statements. The derivative component of the Yanjing Brewery Convertible Bonds was stated in the consolidated statement of financial position at fair value with any changes in fair value recognised in profit or loss.

The fair values of the derivative component of the Yanjing Brewery Convertible Bonds and the date of issue were determined by reference to valuations performed by an independent professionally qualified valuer using the Binomial Option Pricing Model in prior years.

During the year ended 31 December 2015, all of the remaining Yanjing Brewery Convertible Bonds with an aggregate principal amount of HK$80,216,000 were converted into 8,887,914 ordinary shares of Yanjing Brewery by certain bondholders and the relevant principal amount of HK$3,178,000 was redeemed.

38. DEFINED BENEFIT PLANS

Certain employees of Beijing Gas and EEW Group, an indirectly-held wholly-owned subsidiaries of the Company, are entitled to retirement benefits after retirement such as supplemental medical reimbursement, allowance and beneficiary benefits pursuant to certain of its defined benefit plans. The plans are exposed to interest rate risk and the risk of changes in the life expectancy for the employees.

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

	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement and other retirement benefit plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2016				
Current service cost	**38,112**	**4,423**	**53,928**	**96,463**
Past service cost	**28,238**	**3,581**	**–**	**31,819**
Interest cost	**24,229**	**6,221**	**26,797**	**57,247**
Net benefit expense	**90,579**	**14,225**	**80,725**	**185,529**
Year ended 31 December 2015				
Current service cost	30,549	3,596	–	34,145
Past service cost	8,605	944	–	9,549
Interest cost	22,635	5,690	143	28,468
Net benefit expense	61,789	10,230	143	72,162

38. DEFINED BENEFIT PLANS *(Continued)*

(b) Present value of the defined benefit obligations

2016

	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement and other retirement benefit plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	663,150	172,288	2,266	837,704
Acquisition of subsidiaries *(note 45)*	-	-	541,961	541,961
Net benefit expenses recognised in profit or loss	90,579	14,225	80,725	185,529
Benefits paid	(5,297)	(6,383)	(8,610)	(20,290)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	223,012	6,513	(24,314)	205,211
Exchange realignment	(57,912)	(12,124)	(33,041)	(103,077)
At 31 December 2016	913,532	174,519	558,987	1,647,038
Portion classified as current liabilities included in other payables and accruals *(note 43)*				(13,093)
Non-current portion				1,633,945

38. DEFINED BENEFIT PLANS *(Continued)*

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

2015

	Supplemental post-retirement medical reimbursement plan *HK$'000*	Supplemental post-retirement allowance and beneficiary benefit plans *HK$'000*	Internal retirement benefit plan *HK$'000*	Total *HK$'000*
At 1 January 2015	540,612	137,470	4,441	682,523
Net benefit expenses recognised in profit or loss	61,789	10,230	143	72,162
Benefits paid	(4,482)	(3,753)	(1,870)	(10,105)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	96,465	36,419	(308)	132,576
Exchange realignment	(31,234)	(8,078)	(140)	(39,452)
At 31 December 2015	663,150	172,288	2,266	837,704
Portion classified as current liabilities included in other payables and accruals *(note 43)*				(9,744)
Non-current portion				827,960

(c) Principal assumptions

The most recent actuarial valuations of the present value of the defined benefit obligations for Beijing Gas Group and EEW Group were carried out at 31 December 2016 by Towers Watson and Aon Hewitt respectively, using the projected unit credit method. The material actuarial assumptions used in determining the defined benefit obligations for the Group's plans are as follows:

	2016	2015
Beijing Gas Group		
Discount rate	3.75%	3.75%
Healthcare cost inflation rate	8.00%	8.00%
EEW Group		
Discount rate	1.8%	–

38. DEFINED BENEFIT PLANS *(Continued)*

(c) Principal assumptions *(Continued)*

A quantitative sensitivity analysis for significant assumptions as at 31 December 2016 and 2015 is shown below:

	Increase in rate	**Increase/ (decrease) in net defined benefit obligations**	**Decrease in rate**	**Increase/ (decrease) in net defined benefit obligations**
	%	*HK$'000*	*%*	*HK$'000*
Beijing Gas Group				
2016				
Discount rate	**0.25**	**(74,191)**	**0.25**	**81,499**
Healthcare cost inflation rate	**1.00**	**320,713**	**1.00**	**(225,669)**
2015				
Discount rate	0.25	(53,004)	0.25	57,935
Healthcare cost inflation rate	1.00	218,596	1.00	(156,300)
EEW Group				
2016				
Discount rate	**0.25**	**(41,712)**	**0.25**	**43,440**

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

At 31 December 2016, the expected contribution to be made within the next 12 months out of the defined benefit obligations was HK$13,093,000 (2015: HK$9,744,000).

39. PROVISION FOR ONEROUS CONTRACTS AND MAJOR OVERHAULS

Pursuant to the service concession arrangements on the Group's toll road operation and solid waste treatment operations in the PRC, 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. Pursuant to the contractual arrangement for one of the Group's plant in Germany, the Group is obliged to demolish the solid waste treatment plant in the year 2025. These contractual obligations to demolish of plant, maintain or restore the infrastructures, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs are collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Obligation under onerous contracts is arose form the solid waste treatment services contract entered for the solid waste treatment operation in Germany. Management consider the unavoidable costs of meeting the obligation under such contracts exceed the economic benefits expected to be recover under such contracts.

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

	Major overhauls *HK$'000*	Onerous contracts *HK$'000*	Total *HK$'000*
At 1 January 2015	30,544	–	30,544
Exchange alignment	(2,181)	–	(2,181)
At 31 December 2015	28,363	–	28,363
Acquisition of subsidiaries *(note 45)*	127,647	476,928	604,575
Additional provisions	25,770	–	25,770
Increase in a discounted amount arising from the passage of time	1,959	–	1,959
Reversal of provision	–	(121,978)	(121,978)
Exchange alignment	(10,551)	(20,800)	(31,351)
At 31 December 2016	173,188	334,150	507,338
Portion classified as current liabilities	–	(46,235)	(46,235)
Non-current portion	173,188	287,915	461,103

No provision for major overhauls for the Group's solid waste treatment operations in the PRC was recognised by the Group as the financial impact is insignificant to the consolidated financial statements.

40. OTHER NON-CURRENT LIABILITIES

	Note	2016 HK$'000	2015 HK$'000
Other liabilities – non-current portion	43	**323,278**	30,322
Deferred income		**699,358**	731,624
		1,022,636	761,946

41. DEFERRED TAX

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

	2016 HK$'000	2015 HK$'000
Deferred tax assets	**1,176,529**	779,713
Deferred tax liabilities	**(2,081,420)**	(480,481)
	(904,891)	299,232

41. DEFERRED TAX *(Continued)*

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

	Notes	Attributable to											
		Fair value adjustments arising from acquisition of subsidiaries	Depreciation allowances in excess of related depreciation	Other temporary differences related to property, plant and equipment	Transfer of assets from customers	Fair value adjustments on available-for-sale investments	Impairment provision and accrued expenses	Provision for bonus and defined benefit plans	Provision for major overhauls	Revaluation of investment properties and operating concession	Losses available for offsetting future taxable profits	Withholding tax	Net deferred tax assets/ (liabilities)
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(note (a))*	*HK$'000* *(note (b))*	*HK$'000*
At 1 January 2015		26,690	(2,101)	31,267	(108,090)	(18,234)	355,535	169,160	9,082	(64,909)	17,735	(122,025)	294,110
Deferred tax credited/(charged) to profit or loss during the year	*10*	(7,541)	(174)	–	11,853	(592)	75,735	32,066	–	(115,692)	–	–	(4,345)
Deferred tax credited to other comprehensive income during the year		–	–	–	–	5,155	–	33,144	–	–	–	–	38,299
Transfer to assets of disposal groups classified as held for sale	*31*	–	–	–	–	–	(3,916)	–	–	–	–	–	(3,916)
Acquisition of subsidiaries	*45*	606	–	–	–	–	–	–	–	–	–	–	606
Exchange realignment		(7,521)	106	(1,489)	4,719	54	(16,963)	(10,384)	(1,446)	8,295	(893)	–	(25,522)
At 31 December 2015		12,234	(2,169)	29,778	(91,518)	(13,617)	410,391	223,986	7,636	(172,306)	16,842	(122,025)	299,232

	Notes	**Attributable to**											
		Fair value adjustments arising from acquisition of subsidiaries	**Depreciation allowances in excess of related depreciation**	**Other temporary differences related to property, plant and equipment**	**Transfer of assets from customers**	**Fair value adjustments on available-for-sale investments**	**Impairment provision and accrued expenses**	**Provision for bonus and defined benefit plans**	**Provision for major overhauls and onerous contracts**	**Revaluation of investment properties and operating concession**	**Losses available for offsetting future taxable profits**	**Withholding tax**	**Net deferred tax assets/ (liabilities)**
		HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000*** *(note (a))*	***HK$'000*** *(note (b))*	***HK$'000***
At 1 January 2016		**12,234**	**(2,169)**	**29,778**	**(91,518)**	**(13,617)**	**410,391**	**223,986**	**7,636**	**(172,306)**	**16,842**	**(122,025)**	**299,232**
Deferred tax credited/(charged) to profit or loss during the year	*10*	**74,670**	**(164)**	**(16,260)**	**(14,158)**	**–**	**200,741**	**70,797**	**(28,862)**	**–**	**7,849**	**–**	**294,613**
Deferred tax credited to other comprehensive income during the year		**–**	**–**	**–**	**–**	**–**	**–**	**50,099**	**–**	**–**	**–**	**–**	**50,099**
Acquisition of subsidiaries	*45*	**(1,312,934)**	**–**	**(628,829)**	**–**	**–**	**24,768**	**124,859**	**181,372**	**–**	**–**	**–**	**(1,610,764)**
Exchange realignment		**70,794**	**152**	**38,956**	**6,730**	**477**	**(42,935)**	**(26,921)**	**(8,722)**	**24,530**	**(1,132)**	**–**	**61,929**
At 31 December 2016		**(1,155,236)**	**(2,181)**	**(576,355)**	**(98,946)**	**(13,140)**	**592,965**	**442,820**	**151,424**	**(147,776)**	**23,559**	**(122,025)**	**(904,891)**

41. DEFERRED TAX *(Continued)*

Notes:

(a) At 31 December 2016, deferred tax assets have not been recognised in respect of unused tax losses of HK$3,806,009,000 (2015: losses of HK$3,712,817,000) 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$3,784,637,000 (2015: HK$3,691,445,000) will expire in one to five years.

(b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%, depending on the jurisdiction of the respective investment enterprises. The Group is therefore liable to withholding taxes on dividends declared by those subsidiaries, joint ventures and associates established in Mainland China in respect of earnings generated from 1 January 2008.

Withholding tax applicable to dividend declared by subsidiaries in Germany and Luxembourg is 26.375% and 15%, respectively. The tax rate may be reduced under the tax treaties entered into between the countries in which the Group operates.

Deferred tax has not been fully recognised for withholding taxes that would be payable on certain portions of the unremitted earnings that are subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China, Germany and Luxembourg. 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, joint ventures and associates in Mainland China, Germany and Luxembourg for which deferred tax liabilities have not been recognised totalled approximately HK$15,561,019,000 (2015: HK$11,263,281,000) as at 31 December 2016.

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

42. TRADE AND BILLS PAYABLES

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

	2016 ***HK$'000***	2015 *HK$'000*
Billed:		
Within one year	**2,801,186**	2,022,042
One to two years	**64,644**	304,034
Two to three years	**11,122**	140,151
Over three years	**29,961**	171,715
	2,906,913	2,637,942
Unbilled	**1,022,284**	1,003,012
	3,929,197	3,640,954

42. TRADE AND BILLS PAYABLES *(Continued)*

Included in the Group's trade and bills payables as at 31 December 2016 are amounts of HK$28,458,000 (2015: HK$48,630,000) 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.

43. OTHER PAYABLES AND ACCRUALS

	Notes	2016 HK$'000	2015 HK$'000
Accruals		**964,985**	480,468
Defined benefit plans – current portion	*38(b)*	**13,093**	9,744
Other liabilities		**7,043,399**	6,266,486
Due to a holding company	*28*	**1,555,143**	1,261,656
Due to related parties	*28*	**247,315**	268,921
		9,823,935	8,287,275
Portion classified as current liabilities		**(9,500,657)**	(8,256,953)
Non-current portion	*40*	**323,278**	30,322

The Group's other liabilities as at 31 December 2016 included, inter alia, the following:

(a) an amount of HK$26,624,000 (2015: HK$28,526,000) 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

(b) construction project costs of HK$104,528,000 (2015: HK$106,717,000) 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.

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

Details of Yanjing Investment (an 80% owned subsidiary which holds 57.40% equity interests in Yanjing Brewery) and its subsidiaries (collectively the "Yanjing Investment Group") that have material non-controlling interests are set out below:

	2016	2015
	HK$'000	*HK$'000*
Profit for the year allocated to non-controlling interests	**217,692**	278,334
Dividends paid to non-controlling interests of the Yanjing Investment Group	**250,844**	281,730
Accumulated balances of non-controlling interests at the reporting dates	**8,296,764**	8,888,701

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

	2016	2015
	HK$'000	*HK$'000*
Revenue	**11,589,905**	14,069,445
Total expenses	**(11,307,347)**	(13,682,631)
Profit for the year	**282,558**	386,814
Total comprehensive income/(loss) for the year	**(232,564)**	77,242
Current assets	**7,078,482**	7,467,760
Non-current assets	**13,865,175**	14,834,581
Current liabilities	**(6,670,221)**	(9,298,818)
Non-current liabilities	**(229,156)**	(370,818)
Net cash flows from operating activities	**1,260,048**	1,725,629
Net cash flows used in investing activities	**(905,094)**	(789,360)
Net cash flows used in financing activities	**(402,526)**	(1,148,847)
Net decrease in cash and cash equivalents	**(47,572)**	(212,578)

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

45. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year ended 31 December 2016 as at their respective dates of acquisition were as follows:

	Notes	**2016** ***HK$'000*** ***(note (a))***	2015 *HK$'000* *(note (b))*
Net assets acquired:			
Property, plant and equipment	*13*	**7,307,214**	111,805
Other intangible assets	*18*	**3,458,272**	44,014
Interests in associates		**33,558**	–
Deferred tax assets	*41*	**717,906**	606
Inventories		**203,429**	5,092
Receivables under finance lease		**1,031,469**	–
Trade and bills receivables		**630,556**	3,835
Prepayments, deposits and other receivables		**547,646**	64,879
Income tax recoverable		**85,579**	1,677
Restricted cash and pledged deposits		**27,734**	–
Cash and cash equivalents		**445,141**	35,882
Bank and other borrowings		**(3,921,575)**	–
Other non-current liabilities		**(264,566)**	–
Deferred tax liabilities	*41*	**(2,328,670)**	–
Trade and bills payables		**(154,440)**	(12,143)
Defined benefits plan	*38*	**(541,961)**	–
Provision for onerous contracts and major overhauls	*39*	**(604,575)**	–
Income tax payables		**(322,678)**	–
Other payables and accruals		**(259,816)**	(125,828)
Total identifiable net assets at fair value		**6,090,223**	129,819
Non-controlling interests		**(750,845)**	(90,524)
		5,339,378	39,295
Goodwill on acquisition	*16*	**7,213,937**	143,171
Consideration transferred		**12,553,315**	182,466

45. BUSINESS COMBINATIONS *(Continued)*

	2016	2015
	HK$'000	*HK$'000*
	(note (a))	*(note (b))*
Satisfied by:		
Cash	**12,553,315**	100,000
Reclassification from interest in a joint venture to interest in a subsidiary	**–**	82,466
	12,553,315	182,466
Revenue for the year of the acquired business since acquired	**3,791,197**	49,075
Profit for the year of the acquired business since acquisition	**233,285**	17,561

The Group has elected to measure the non-controlling interests in the subsidiaries acquired at the non-controlling interests' proportionate share of the identifiable net assets of the subsidiaries acquired for those business combinations in the current and prior years.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2016	2015
	HK$'000	*HK$'000*
	(note (a))	*(note (b))*
Cash and cash equivalents acquired	**445,141**	35,882
Cash consideration	**(12,553,315)**	(100,000)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(12,108,174)**	(64,118)

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK$6,718,273,000 (2015: HK$5,985,560,000) and the Group's revenue would have been HK$56,670,516,000 (2015: HK$60,380,123,000).

45. BUSINESS COMBINATIONS *(Continued)*

Notes:

(a) In March 2016, the Group acquired the entire equity interest in the EEW Group from two independent third parties at a cash consideration of EUR1,453,000,000 (equivalent to HK$12,553,000,000). EEW Group is principally engaged in the provision of electricity, steam and heat from waste in Germany.

(b) Business combinations during the year ended 31 December 2015 mainly included the following transactions:

(i) In January 2015, the Group acquired a 70% equity interest in 北控安耐得環保科技發展常州有限公司 ("Changzhou") from an independent third party at a cash consideration of RMB84,000,000 (equivalent to HK$100,000,000). Changzhou is principally engaged in the hazardous and industrial solid waste treatment operation in Jiangsu Province, the PRC; and

(ii) In December 2015, Beijing Gas Group Company Limited, a wholly-owned subsidiary of the Group, reached a consent with another shareholder of 北京北燃港華燃氣有限公司 ("Ganghua"), a then 50% joint venture of the Group, for the entrustment of its power in the board of directors of Ganghua to the Group. Upon execution of the new articles of association, the Group was entitled to vest control over the financing and operating policies of Ganghua. Accordingly, Ganghua became a 50% owned subsidiary of the Group. Ganghua is principally engaged in the provision of pipeline gas in Beijing City, the PRC.

46. DISPOSAL OF SUBSIDIARIES

	Note	2016 HK$'000
Net assets disposed of:		
Property, plant and equipment		27,043
Prepaid land premium		10,662
Goodwill		579,171
Interests in joint ventures		88,206
Interests in associates		733,747
Intangible assets		313,090
Available-for-sale investments		2,667
Amount due from contract customers		514
Inventories		8,508
Trade and bills receivables		110,751
Prepayments, deposits and other receivables		418,035
Pledged deposits		12,134
Cash and cash equivalents		174,062
Bank and other borrowings		(33,623)
Trade payables		(131,464)
Other payables and accruals		(288,453)
Income tax payables		(1,326)
Non-controlling interests		(11,767)
		2,011,957
Transaction costs paid		757
Exchange fluctuation reserve		58,619
Gain on disposal of subsidiaries	5	350,209
		2,421,542
Satisfied by:		
Cash		2,421,542

46. DISPOSAL OF SUBSIDIARIES *(Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

	2016
	HK$'000
Cash consideration	**2,421,542**
Cash and bank balances disposed of	**(174,062)**
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**2,247,480**

Notes:

Disposal of subsidiaries during the year ended 31 December 2016 included the following transactions:

(a) In July 2016, the Group entered into a share purchase agreement with an independent third party ("the Buyer"), pursuant to which the Group agreed to sell and the Buyer agreed to purchase the entire equity interest in GSWG at a cash consideration of US$296 million. The transaction was completed on 30 November 2016.

(b) On 23 December 2014, Prime Technology Group Limited ("PTG"), a wholly-owned subsidiary of BEEGL, entered into an equity transfer agreement with a fellow subsidiary of the Company, Beijing Enterprises Group Information Limited ("BEGIL", a wholly-owned subsidiary of Beijing Enterprises Group), pursuant to which PTG conditionally agreed to dispose of its entire equity interest in BE Information Technology Group Limited ("BEITG") and its subsidiaries (collectively, the "BEITG Group") to BEGIL for a total cash consideration of HK$126,000,000. The transaction was completed in March 2016 upon the settlement of the consideration.

47. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Apart from the transactions as detailed in note 27 to the financial statements, the Group had no other major non-cash transactions of investing and financing activities during the years ended 31 December 2016 and 2015.

48. CONTINGENT LIABILITIES

As at the end of the reporting period, the Group had no significant contingent liabilities not provided for in the financial statements.

49. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for original terms ranging from 1 to 5 years. The terms of the leases generally require the tenants to pay security deposits.

As at the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**7,498**	2,949
In the second to fifth years, inclusive	**7,178**	266
	14,676	3,215

49. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group leases certain of its land, office properties and staff quarters under operating lease arrangements, with leases negotiated with original terms ranging from 1 to 39 years.

As at the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**152,549**	71,602
In the second to fifth years, inclusive	**137,348**	128,305
After five years	**499,014**	556,277
	788,911	756,184

50. CAPITAL COMMITMENTS

As at the end of the reporting period, the Group had the following capital commitments:

	2016	2015
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Buildings	**72,203**	269,373
Gas pipelines and plant and machinery	**1,022,481**	1,105,112
New service concession arrangements on a BOO basis	**199,684**	–
New service concession arrangements on a BOT basis	**84,246**	236,217
Acquisition of an associate	**8,525,000**	–
	9,903,614	1,610,702

51. RELATED PARTY DISCLOSURES

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

Name of related party	Nature of transaction	*Notes*	**2016** *HK$'000*	2015 *HK$'000*
Non-controlling equity holders of subsidiaries and their associates:				
Yanjing Beer Group and its associates	Purchase of bottle labels[γ]	*(i)*	**38,288**	100,933
	Purchase of bottle caps[γ]	*(i)*	**18,827**	77,851
	Canning service fees paid[γ]	*(ii)*	**10,676**	41,079
	Comprehensive support service fees paid[γ]	*(iii)*	**18,076**	19,191
	Land rent expenses[γ]	*(iv)*	**2,150**	2,283
	Trademark licensing fees paid[γ]	*(v)*	**66,788**	68,312
	Less: refund for advertising subsidies[γ]	*(v)*	**(6,252)**	(5,348)
Fellow subsidiaries:				
Beiran Enterprises and its subsidiaries	Sale of gas[#]	*(vi)*	**70,287**	37,351
	Engineering service income[#]	*(vii)*	**10,805**	14,675
	Comprehensive service income[#]	*(vii)*	**8,014**	12,175
	Sale of goods[#]	*(x)*	**58,260**	91,753
	Engineering service expenses[#]	*(vii)*	**90,744**	101,907
	Comprehensive service expenses[#]	*(vii)*	**44,537**	45,126
	Building rental expenses[#]	*(viii)*	**87,062**	100,442
	Building rental income[#]	*(viii)*	**448**	480
	Purchase of goods[#]	*(viii)*	**123,435**	157,926
Associates:				
Beijing Enterprises Group Finance Co. Ltd.	Interest expense	*(ix)*	**29,549**	28,457
	Interest income[#]	*(ix)*	**21,081**	14,473

γ These related party transactions also constitute continuing connected transactions that are exempted from the reporting, announcement and independent shareholders' approval requirements as defined in Chapter 14A of the Listing Rules.

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

51. 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 rent expenses were charged at a mutually-agreed amount of RMB1,849,000 (equivalent to HK$2,150,000) (2015: RMB1,849,000 (equivalent to HK$2,283,000)) per annum.

(v) The trademark licensing fees paid were for the use of the "Yanjing" trademark and were determined based on 0.94% of the annual sales of beer and mineral water products made by Yanjing Brewery and at a rate of 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 gas and the gas transmission fee were 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.

51. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Notes: (Continued)

(ix) Beijing Enterprises Group Finance Co. Ltd. ("BE Group Finance") is a 48.16% owned associate of the Group and also a subsidiary of Beijing Enterprises Group. BE Group Finance was established to act as platform for members of Beijing Enterprises Group for the provision of intra-group facilities through financial products including deposit-taking, money-lending and custodian services.

Pursuant to a deposit services master agreement (the "Deposit Services Master Agreement") entered into between the Company and BE Group Finance on 29 December 2014, the Group may, in its ordinary and usual course of business, place and maintain deposits with BE Group Finance on normal commercial terms from time to time. The term of the Deposit Services Master Agreement shall commence on the date of the Deposit Services Master Agreement and continue up to and including 31 December 2016. Subject to compliance with the Listing Rules, upon the expiration of such initial term, the Deposit Services Master Agreement may be renewed by the Company and BE Group Finance by agreement in writing. The daily aggregate of deposits placed by the Group with BE Group Finance (including any interest accrued thereon) during the term of the Deposit Services Master Agreement will not exceed HK$3,700 million.

On 30 December 2016, the Company and BE Group Finance entered into the 2017 Deposit Agreement (the "Deposit Agreement") whereby the Company and BE Group Finance will continue to carry out the transactions under the Deposit Services Master Agreement for three years from 1 January 2017 to 31 December 2019, with terms and conditions substantially the same as those under the Deposit Services Master Agreement. The revised daily aggregate of deposits placed by the Group with BE Group Finance (including any interest accrued thereon) during the term of the Deposit Agreement will not exceed HK$2,200 million.

The deposit services provided by BE Group Finance constitute continuing connected transactions that are subject to the announcement, reporting and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Interest rates on deposits placed in and loans offered by BE Group Finance denominated in Renminbi were determined by reference to the then prevailing market rates offered by 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 bankers of the Group.

The amounts of deposits placed by the Group with BE Group Finance as at the end of the reporting period are disclosed in note 30 to the financial statements. The amounts of loans borrowed by the Group from BE Group Finance as at the end of reporting period are disclosed in note 35(b)(ii) to the financial statements.

(x) The selling prices of goods were determined on a cost-plus basis.

(b) Outstanding balances with related parties

(i) Details of the Group's balances with related parties included in deposits and other receivables, and trade and bills payables and other payables and accruals are disclosed in notes 27, 42 and 43 to the financial statements, respectively.

(ii) Details of the Group's balances with joint ventures, associates, holding companies and fellow subsidiaries are disclosed in notes 19, 20, 26(a), 27, 28, 35(b)(ii) and 42 to the financial statements, respectively.

51. 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 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

	2016	2015
	HK$'000	*HK$'000*
Short term employee benefits	**25,958**	27,938
Pension scheme contributions	**29**	29
Total compensation paid to key management personnel	**25,987**	27,967

Further details of directors' emoluments are included in note 8 to the financial statements.

52. FINANCIAL INSTRUMENTS BY CATEGORY

Other than derivative financial instruments and certain equity investments being classified as available-for-sale investments, as disclosed in note 22 and 23 to the financial statements, all financial assets and liabilities of the Group as at 31 December 2016 and 2015 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

53. 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.

53. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

As disclosed in note 23 to the financial statements, listed equity investments of the Group are stated at fair value based on their quoted market prices (as categorised within Level 1 of the fair value hierarchy); whilst the unlisted equity investments of the Group are stated at cost less any accumulated impairment losses because fair values of which cannot be reasonably assessed and therefore, no disclosure of the fair values of these financial instruments is made.

The fair value of the Group's guaranteed bonds and senior notes was HK$20,922,771,000 (2015: HK$20,695,007,000) which was determined as Level 1. The fair value of the Group's guaranteed bonds and senior notes are based on price quotations from financial institutions at the reporting date.

As disclosed in note 22 to the financial statements, the fair value of the Group's derivative components of convertible bonds was determined as Level 3. The fair value of the Group's derivative components of convertible bonds are based on significant unobservable inputs.

For other non-current financial assets and liabilities, in the opinion of the directors, 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.

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other loans, the guaranteed bonds and senior 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 amounts due from/to contract customers, trade and bills receivables, deposits and other receivables, trade and bills payables, other payables and accruals, receivables under service concession arrangements and amounts due from/to holding companies, fellow subsidiaries, an associate, 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 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 loans, the guaranteed bonds and senior 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.

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

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

	Total	Effective interest rate
	HK$'000	*%*
At 31 December 2016		
Floating rate:		
Restricted cash and pledged deposits	**56,547**	**0.35**
Cash and cash equivalents	**11,250,314**	**0.35**
Interest-bearing bank and other borrowings	**(30,028,532)**	**1.58**
Fixed rate:		
Cash and cash equivalents	**4,721,238**	**1.1**
Interest-bearing bank and other borrowings	**(1,129,393)**	**4.19**
Guaranteed bonds and senior notes	**(19,333,950)**	**4.37**
At 31 December 2015		
Floating rate:		
Restricted cash and pledged deposits	73,003	0.35
Cash and cash equivalents	9,370,035	0.35
Interest-bearing bank and other borrowings	(13,648,009)	2.22
Fixed rate:		
Cash and cash equivalents	4,323,769	1.23
Interest-bearing bank and other borrowings	(1,516,034)	6.64
Guaranteed bonds and senior notes	(19,444,592)	4.35

At 31 December 2016, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other loans and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK$70,004,000 (2015: HK$31,301,000).

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

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 2015.

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, the Group's statement of 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$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in profit before tax *HK$'000*	Increase/ (decrease) in equity *HK$'000*
2016		
If Hong Kong dollar weakens against RMB by 5%	**561,500**	**3,515,924**
If Hong Kong dollar strengthens against RMB by 5%	**(561,500)**	**(3,515,924)**
2015		
If Hong Kong dollar weakens against RMB by 5%	455,234	3,435,795
If Hong Kong dollar strengthens against RMB by 5%	(455,234)	(3,435,795)

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.

54. 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. Aged analysis of trade and bills receivables are 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.

At the end of the reporting period, concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from receivables under service concession arrangements and trade and bills receivables are set out in notes 17 and 26 to the financial statements, respectively.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from joint ventures and associates, deposits and other receivables and amounts due from holding companies, fellow subsidiaries and related parties, arises from default of the counterparty, with a maximum exposure to the carrying amounts of these instruments.

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, the guaranteed bonds and senior 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 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.

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities (other than receipts in advance and defined benefit plans) as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

At 31 December 2016

	On demand or within 1 year *HK$'000*	In the second year *HK$'000*	3 to 5 years *HK$'000*	Beyond 5 years *HK$'000*	Total *HK$'000*
Bank loans	14,767,065	622,480	12,277,204	491,403	28,158,152
Other loans	3,858,814	173,504	472,168	408,818	4,913,304
Guaranteed bonds and senior notes	844,460	844,460	11,215,041	16,311,544	29,215,505
Trade and bills payables	3,929,197	–	–	–	3,929,197
Accruals and other liabilities	7,698,199	323,278	–	–	8,021,477
Due to a holding company	1,555,143	–	–	–	1,555,143
Due to related parties	247,315	–	–	–	247,315
	32,900,193	1,963,722	23,964,413	17,211,765	76,040,093

At 31 December 2015

	On demand or within 1 year *HK$'000*	In the second year *HK$'000*	3 to 5 years *HK$'000*	Beyond 5 years *HK$'000*	Total *HK$'000*
Bank loans	3,392,747	346,370	7,220,259	891,853	11,851,229
Other loans	3,811,338	127,482	512,001	642,802	5,093,623
Guaranteed bonds and senior notes	844,460	844,460	6,741,680	22,336,090	30,766,690
Trade and bills payables	3,640,954	–	–	–	3,640,954
Accruals and other liabilities	6,726,376	30,322	–	–	6,756,698
Due to a holding company	1,261,656	–	–	–	1,261,656
Due to related parties	268,921	–	–	–	268,921
	19,946,452	1,348,634	14,473,940	23,870,745	59,639,771

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair value risk

The Group's financial instruments that are carried in the financial statements at other than fair values are disclosed in note 53 to the financial statements. In the opinion of the directors, the Group's exposure to fair value risk in respect of its financial instruments is minimal.

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 2016 and 2015.

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.

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 senior notes (as shown in the consolidated statement of financial position) less cash and bank balances and time deposits (including restricted cash and pledged deposits). The net gearing ratios as at the end of the reporting periods are as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Guaranteed bonds and senior notes	**19,333,950**	19,444,592
Total bank and other borrowings	**31,295,143**	15,311,014
Less: Cash and bank balances and time deposits	**(16,028,099)**	(13,766,807)
Net borrowing	**34,600,994**	20,988,799
Total equity	**68,038,926**	68,652,170
Net gearing ratio	**50.9%**	30.6%

55. OTHER FINANCIAL INFORMATION

The net current liabilities and total assets less current liabilities of the Group as at 31 December 2016 amounted to HK$5,423,898,000 (2015: net current assets of HK$7,330,571,000) and HK$105,448,565,000 (2015: HK$98,458,561,000), respectively.

56. EVENTS AFTER THE REPORTING PERIOD

In November 2016, Beijing Gas entered into an acquisition agreement (the "PJSC Agreement") with independent third parties (the "Seller"), pursuant to which Beijing Gas agreed to purchase and the Seller agreed to sell approximately 20% equity interest (an aggregate of 6,901,160 ordinary shares) of PJSC Verkhnechonskneftegaz ("PJSC") at a cash consideration of US$1,100 million.

PJSC is an Oil and Gas Company located in Irkutsk, Russia Federation, with its principal business engaged in exploring, appraising, developing, producing and marketing oil, gas and condensate field.

The transaction has not yet been completed as at the date of approval of these financial statements.

Further details were set out in the Company's announcement published on the website of the Hong Kong Stock Exchange on 9 November 2016.

57. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated in the preparation of these financial statements as a result of the change in reportable segments due to the acquisition of EEW Group, details of which are set out in note 45 to the financial statements.

58. 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:

	2016	2015
	HK$'000	*HK$'000*
ASSETS		
Non-current assets:		
Property, plant and equipment	**1,375**	3,491
Investment properties	**56,914**	56,914
Investments in subsidiaries	**60,648,920**	57,569,731
Investments in associates	**106,128**	106,128
Available-for-sale investments	**1,256,381**	1,261,570
Total non-current assets	**62,069,718**	58,997,834
Current assets:		
Trade and bills receivables	**977**	1,047
Prepayments, deposits and other receivables	**191,329**	1,358,684
Cash and cash equivalents	**2,492,280**	1,183,806
Total current assets	**2,684,586**	2,543,537
TOTAL ASSETS	**64,754,304**	61,541,371
EQUITY AND LIABILITIES		
Equity:		
Share capital	**30,401,883**	30,401,883
Reserves (note)	**1,183,286**	1,032,882
TOTAL EQUITY	**31,585,169**	31,434,765
Non-current liabilities:		
Bank and other borrowings	**10,092,265**	5,371,917
Due to subsidiaries	**17,801,657**	17,795,339
Total non-current liabilities	**27,893,922**	23,167,256

58. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2016	2015
	HK$'000	*HK$'000*
Current liabilities:		
Other payables and accruals	**1,819,841**	1,436,478
Income tax payable	**85,372**	85,372
Bank and other borrowings	**3,370,000**	5,417,500
Total current liabilities	**5,275,213**	6,939,350
TOTAL LIABILITIES	**33,169,135**	30,106,606
TOTAL EQUITY AND LIABILITIES	**64,754,304**	61,541,371

Zhou Si
Director

Tam Chun Fai
Director

58. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follow:

	Share premium account HK$'000	Capital redemption reserve HK$'000	Treasury shares HK$'000	Capital reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2015	–	–	–	13,220	(22,773)	17,561	1,127,104	1,135,112
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	1,195,379	1,195,379
Final 2014 dividend declared	–	–	–	–	–	–	(796,297)	(796,297)
Interim 2015 dividend	–	–	–	–	–	–	(385,305)	(385,305)
Shares repurchased	–	–	(46,623)	–	–	–	(69,384)	(116,007)
At 31 December 2015 and 1 January 2016	–	–	(46,623)	13,220	(22,773)	17,561	1,071,497	1,032,882
Profit/(loss) for the year and total comprehensive income for the year	–	–	–	–	–	–	2,067,955	2,067,955
Final 2015 dividend	–	–	–	–	–	–	(833,853)	(833,853)
Interim 2016 dividend	–	–	–	–	–	–	(378,646)	(378,646)
Shares repurchased and cancelled	–	–	46,623	–	–	–	(751,675)	(705,052)
At 31 December 2016	–	–	–	13,220	(22,773)	17,561	1,175,278	1,183,286

59. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2017.

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries set out on pages 55 to 190, which comprise the consolidated statement of financial position as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

AUDITORS' RESPONSIBILITY *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

31 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

	Notes	**2015** *HK$'000*	2014 *HK$'000*
REVENUE	*5*	**60,149,945**	47,935,795
Cost of sales		**(51,098,897)**	(39,359,764)
Gross profit		**9,051,048**	8,576,031
Gain on deemed disposal of partial interest in an associate	*20(a)*	**2,390**	378,843
Other income and gains, net	*5*	**1,464,170**	862,480
Selling and distribution expenses		**(2,575,564)**	(2,595,985)
Administrative expenses		**(3,936,272)**	(3,407,908)
Other operating expenses, net		**(773,964)**	(482,408)
PROFIT FROM OPERATING ACTIVITIES	*6*	**3,231,808**	3,331,053
Finance costs	*7*	**(1,301,863)**	(1,172,491)
Share of profits and losses of:			
Joint ventures	*19(a)*	**(183)**	4,827
Associates	*20(b)*	**4,708,112**	3,807,092
PROFIT BEFORE TAX		**6,637,874**	5,970,481
Income tax	*10*	**(681,961)**	(564,834)
PROFIT FOR THE YEAR		**5,955,913**	5,405,647
ATTRIBUTABLE TO:			
Shareholders of the Company		**5,667,378**	4,831,678
Non-controlling interests		**288,535**	573,969
		5,955,913	5,405,647
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	*12*		
Basic		**HK$4.41**	HK$3.78
Diluted		**HK$4.41**	HK$3.77

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	2015 HK$'000	2014 HK$'000
PROFIT FOR THE YEAR	**5,955,913**	5,405,647
OTHER COMPREHENSIVE LOSS		
Items to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**(107,495)**	(106,292)
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	**(20,617)**	(61,268)
Income tax effect	**5,155**	(16,892)
	(122,957)	(184,452)
Exchange differences on translation of foreign operations	**(2,927,685)**	(1,367,217)
Fair value gain on revaluation of a building upon transfer to investment property	**29,685**	–
Share of other comprehensive loss of associates	**(683,697)**	(101,289)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(3,704,654)**	(1,652,958)
Items not to be reclassified to profit or loss in subsequent periods:		
Defined benefit plans:		
Actuarial losses	**(132,576)**	(108,273)
Income tax effect	**33,144**	27,069
	(99,432)	(81,204)
Share of other comprehensive loss of associates	**(7,498)**	(15,890)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	**(106,930)**	(97,094)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX	**(3,811,584)**	(1,750,052)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,144,329**	3,655,595
ATTRIBUTABLE TO:		
Shareholders of the Company	**2,334,243**	3,336,953
Non-controlling interests	**(189,914)**	318,642
	2,144,329	3,655,595

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2015

	Notes	2015 HK$'000	2014 HK$'000 (Restated)
ASSETS			
Non-current assets:			
Property, plant and equipment	13	**37,735,621**	39,320,530
Investment properties	14	**1,194,258**	703,749
Prepaid land premiums	15	**1,888,032**	1,959,240
Goodwill	16	**8,927,959**	8,899,765
Operating concessions	17	**2,250,526**	2,259,127
Other intangible assets	18	**282,844**	236,978
Investments in joint ventures	19	**192,651**	230,722
Investments in associates	20	**31,599,399**	33,275,203
Available-for-sale investments	21	**1,012,557**	1,084,098
Amounts due from contract customers	23	**388,771**	316,733
Receivables under service concession arrangements	17	**1,655,090**	1,020,254
Prepayments, deposits and other receivables	25	**3,220,569**	1,165,546
Deferred tax assets	39	**779,713**	678,460
Total non-current assets		**91,127,990**	91,150,405
Current assets:			
Prepaid land premiums	15	**45,222**	44,860
Inventories	22	**4,644,199**	5,393,368
Amounts due from contract customers	23	**39,623**	39,895
Receivables under service concession arrangements	17	**135,675**	140,425
Trade and bills receivables	24	**3,544,455**	5,320,835
Prepayments, deposits and other receivables	25	**3,835,300**	6,131,039
Other taxes recoverable		**1,336,880**	2,232,099
Restricted cash and pledged deposits	27	**73,003**	58,735
Cash and cash equivalents	28	**13,693,804**	11,207,706
		27,348,161	30,568,962
Assets of disposal groups classified as held for sale	29	**6,289,889**	2,454,449
Total current assets		**33,638,050**	33,023,411
TOTAL ASSETS		**124,766,040**	124,173,816

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK$'000	2014 HK$'000 (Restated)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	*30*	**30,401,883**	30,401,883
Reserves	*32(a)*	**27,785,384**	26,774,473
		58,187,267	57,176,356
Non-controlling interests		**10,464,903**	10,919,624
TOTAL EQUITY		**68,652,170**	68,095,980
Non-current liabilities:			
Bank and other borrowings	*33*	**8,263,049**	5,559,874
Guaranteed bonds and senior notes	*34*	**19,444,592**	13,879,298
Defined benefit plans	*36*	**827,960**	672,659
Provision for major overhauls	*37*	**28,363**	30,544
Other non-current liabilities	*38*	**761,946**	433,447
Deferred tax liabilities	*39*	**480,481**	384,350
Total non-current liabilities		**29,806,391**	20,960,172

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK$'000	2014 HK$'000 (Restated)
Current liabilities:			
Trade and bills payables	*40*	**3,640,954**	2,238,403
Amounts due to contract customers	*23*	**329,589**	377,784
Receipts in advance		**5,366,453**	5,843,713
Other payables and accruals	*41*	**8,256,953**	7,656,455
Income tax payables		**494,147**	342,499
Other taxes payables		**198,802**	266,372
Liability component of convertible bonds	*35*	**–**	84,556
Derivative component of convertible bonds	*35*	**–**	7,639
Bank and other borrowings	*33*	**7,047,965**	17,691,435
		25,334,863	34,508,856
Liabilities directly associated with the assets of disposal groups classified as held for sale	*29*	**972,616**	608,808
Total current liabilities		**26,307,479**	35,117,664
TOTAL LIABILITIES		**56,113,870**	56,077,836
TOTAL EQUITY AND LIABILITIES		**124,766,040**	124,173,816

Zhou Si
Director

Tam Chun Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

		Attributable to shareholders of the Company												
	Notes	Share capital *HK$'000*	Share premium account *HK$'000*	Capital redemption reserve *HK$'000* *(note 32(b))*	Capital reserve *HK$'000*	Available–for-sale 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$'000* *(note 32(c))*	Retained profits *HK$'000*	Total *HK$'000*	Non–controlling interests *HK$'000* (Restated)	Total equity *HK$'000* (Restated)
At 1 January 2014		127,019	29,607,291	238	532,479	379,645	41,439	113,646	6,453,339	4,636,007	12,130,135	54,021,238	10,046,841	64,068,079
Profit for the year		–	–	–	–	–	–	–	–	–	4,831,678	4,831,678	573,969	5,405,647
Other comprehensive income/(loss) for the year:														
Available-for-sale investments:														
Changes in fair value		–	–	–	–	(105,839)	–	–	–	–	–	(105,839)	(453)	(106,292)
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	*5*	–	–	–	–	(61,268)	–	–	–	–	–	(61,268)	–	(61,268)
Income tax effect	*39*	–	–	–	–	(16,892)	–	–	–	–	–	(16,892)	–	(16,892)
Exchange differences :														
Translation of foreign operations		–	–	–	–	–	–	–	(1,112,343)	–	–	(1,112,343)	(254,874)	(1,367,217)
Defined benefit plans:														
Actuarial losses	*36(b)*	–	–	–	–	–	–	(108,273)	–	–	–	(108,273)	–	(108,273)
Income tax effect	*39*	–	–	–	–	–	–	27,069	–	–	–	27,069	–	27,069
Share of other comprehensive loss of associates		–	–	–	–	–	–	(15,890)	(101,289)	–	–	(117,179)	–	(117,179)
Total comprehensive income/(loss) for the year		–	–	–	–	(183,999)	–	(97,094)	(1,213,632)	–	4,831,678	3,336,953	318,642	3,655,595
Capital contribution from non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	44,907	44,907
Conversion of convertible bonds to ordinary shares	*30(a)*	667,335	–	–	–	–	–	–	–	–	–	667,335	–	667,335
Shares repurchased	*30(b)*	(105)	–	105	–	–	–	–	–	–	(69,162)	(69,162)	–	(69,162)
Transition to non-par value regime	*30(c)*	29,607,634	(29,607,291)	(343)	–	–	–	–	–	–	–	–	–	–
Acquisition of subsidiaries (restated)	*43*	–	–	–	–	–	–	–	–	–	–	–	241,087	241,087
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(21,758)	(21,758)
Deemed disposal of partial interest in a subsidiary		–	–	–	229,926	–	–	–	(3,213)	–	–	226,713	602,448	829,161
Share of reserves of associates		–	–	–	114,188	–	2,404	–	–	–	–	116,592	–	116,592
Final 2013 dividend		–	–	–	–	–	–	–	–	–	(763,695)	(763,695)	–	(763,695)
Interim 2014 dividend	*11*	–	–	–	–	–	–	–	–	–	(359,618)	(359,618)	–	(359,618)
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	(312,543)	(312,543)
Transfer to reserves		–	–	–	495	–	–	–	–	1,666,431	(1,666,926)	–	–	–
At 31 December 2014 (restated)		30,401,883	–	–	877,088	195,646	43,843	16,552	5,236,494	6,302,438	14,102,412#	57,176,356	10,919,624	68,095,980

Retained profits have been adjusted for the proposed final 2014 dividend in accordance with the current year's presentation, which is described in note 2.4 to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

		Attributable to shareholders of the Company											
	Notes	Share capital *HK$'000*	Treasury shares *HK$'000*	Capital reserve *HK$'000*	Available–for-sale investment revaluation reserve *HK$'000* *(note 30(d))*	Property revaluation reserve *HK$'000*	Defined benefit plans reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	PRC reserve funds *HK$'000*	Retained profits *HK$'000*	Total *HK$'000* *(note 32(c))*	Non–controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2015 (restated)		30,401,883	–	877,088	195,646	43,843	16,552	5,236,494	6,302,438	14,102,412	57,176,356	10,919,624	68,095,980
Profit for the year		–	–	–	–	–	–	–	–	5,667,378	5,667,378	288,535	5,955,913
Other comprehensive income/(loss) for the year:													
Available-for-sale investments:													
Changes in fair value		–	–	–	(110,449)	–	–	–	–	–	(110,449)	2,954	(107,495)
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	*5*	–	–	–	(16,494)	–	–	–	–	–	(16,494)	(4,123)	(20,617)
Income tax effect	*39*	–	–	–	4,124	–	–	–	–	–	4,124	1,031	5,155
Exchange differences:													
Translation of foreign operations		–	–	–	–	–	–	(2,449,374)	–	–	(2,449,374)	(478,311)	(2,927,685)
Defined benefit plans:													
Actuarial losses	*36(b)*	–	–	–	–	–	(132,576)	–	–	–	(132,576)	–	(132,576)
Income tax effect	*39*	–	–	–	–	–	33,144	–	–	–	33,144	–	33,144
Fair value gain on revaluation of a building upon transfer to investment property	*13*	–	–	–	–	29,685	–	–	–	–	29,685	–	29,685
Share of other comprehensive income/(loss) of associates		–	–	–	–	8,202	(15,700)	(683,697)	–	–	(691,195)	–	(691,195)
Total comprehensive income/(loss) for the year		–	–	–	(122,819)	37,887	(115,132)	(3,133,071)	–	5,667,378	2,334,243	(189,914)	2,144,329
Capital contribution from non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	2,531	2,531
Shares repurchased	*30(d)*	–	(46,623)	–	–	–	–	–	–	(69,384)	(116,007)	–	(116,007)
Acquisition of subsidiaries	*43*	–	–	–	–	–	–	–	–	–	–	90,524	90,524
Acquisition of non-controlling interests		–	–	(140,585)	–	–	–	–	–	–	(140,585)	(165,548)	(306,133)
Deemed disposal of partial interests in subsidiaries		–	–	4,118	–	–	–	(83)	–	–	4,035	108,179	112,214
Share of reserves of associates		–	–	110,827	–	–	–	–	–	–	110,827	–	110,827
Final 2014 dividend	*11*	–	–	–	–	–	–	–	–	(796,297)	(796,297)	–	(796,297)
Interim 2015 dividend	*11*	–	–	–	–	–	–	–	–	(385,305)	(385,305)	–	(385,305)
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	(300,493)	(300,493)
Transfer to reserves		–	–	–	–	–	–	–	1,298,761	(1,298,761)	–	–	–
At 31 December 2015		30,401,883	(46,623)*	851,448*	72,827*	81,730*	(98,580)*	2,103,340*	7,601,199*	17,220,043*	58,187,267	10,464,903	68,652,170

* *These reserve accounts comprise the consolidated other reserves of HK$27,785,384,000 (2014: HK$26,774,473,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**6,637,874**	5,970,481
Adjustments for:			
Gain on deemed disposal of partial interest in an associate		**(2,390)**	(378,843)
Bank interest income	5	**(163,065)**	(163,874)
Transfer of assets from customers	5	**(40,325)**	(112,009)
Fair value gain on investment properties	5	**(479,798)**	–
Gain on disposal of available-for-sale investments carried at fair value	5	**(20,617)**	(61,268)
Depreciation	6	**2,573,813**	2,298,691
Amortisation of operating concessions	6	**84,338**	20,532
Amortisation of other intangible assets	6	**37,580**	31,447
Amortisation of prepaid land premiums	6	**65,759**	72,021
Loss on disposal of items of property, plant and equipment, net	6	**8,523**	14,569
Impairment of items of property, plant and equipment, net	6	**155,832**	126,468
Impairment of operating concession	6	**189,645**	190,000
Write down to fair value less cost to sell for a disposal group held for sale	6	**231,416**	–
Provision/(reversal of provision) for impairment of trade and bills receivables, net	6	**(23,765)**	39,202
Impairment of other receivables, net	6	**16,614**	15,135
Impairment of investment in an associate	6	**76,478**	–
Finance costs	7	**1,301,863**	1,172,491
Share of profits and losses of joint ventures and associates		**(4,707,929)**	(3,811,919)
Operating profit before working capital changes		**5,941,846**	5,423,124
Decrease in inventories		**455,288**	118,209
Increase in amounts due from contract customers		**(92,037)**	(316,115)
Decrease/(increase) in receivables under service concession arrangements		**(710,741)**	542,730
Decrease/(increase) in trade and bills receivables		**1,569,564**	(1,064,131)
Decrease/(increase) in prepayments, deposits and other receivables		**2,503,222**	(2,623,461)
Decrease/(increase) in other taxes recoverable		**782,519**	(1,997,391)
Increase/(decrease) in trade and bills payables		**1,293,200**	(43,156)
Increase/(decrease) in amounts due to contract customers		**(31,843)**	60,974
Increase/(decrease) in receipts in advance		**(137,680)**	295,474
Increase/(decrease) in other payables and accruals		**694,225**	(1,410,622)
Decrease in other taxes payable		**(67,570)**	(534,511)
Increase in defined benefit plans		**62,057**	46,478
Increase in other non-current liabilities		**362,070**	80,634
Cash generated from/(used in) operations		**12,624,120**	(1,421,764)
Dividends received from joint ventures and associates		**2,465,584**	2,932,279
Mainland China income tax paid		**(500,442)**	(625,362)
Net cash flows from operating activities		**14,589,262**	885,153

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received from an associate		**182,374**	134,296
Purchases of items of property, plant and equipment		**(3,960,354)**	(2,514,375)
Proceeds from disposal of items of property, plant and equipment		**83,029**	37,348
Additions of operating concessions		**(31,169)**	(245,477)
Addition of prepaid land premiums		**(90,958)**	(165,531)
Purchases of other intangible assets		**(85,362)**	(92,861)
Acquisition of subsidiaries	*43*	**(64,118)**	(3,712,575)
Disposal of subsidiaries		**–**	135,286
Acquisition of/increase in investments in joint ventures and associates		**(236,342)**	(2,497,650)
Establishment of a joint venture		**(31,481)**	–
Additions of available-for-sale investments		**(87,795)**	–
Prepayment for acquisition of available-for-sale investments		**(2,400,086)**	–
Increase in amounts due from and loans to joint ventures and associates		**(1,422)**	(25,335)
Proceeds from disposal of available-for-sale investments		**47,691**	106,774
Decrease in time deposits with maturity of more than three months when acquired		**143,031**	508,233
(Increase)/decrease in restricted cash and pledged deposits		**(31,214)**	4,369
Interest received		**163,065**	163,874
Net cash flows used in investing activities		**(6,401,111)**	(8,163,624)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		**2,531**	32,923
Proceed from deemed disposal of partial interest in a subsidiary		**29,762**	–
Acquisition of non-controlling interests		**(306,133)**	(92,240)
Repurchase of shares	*30*	**(92,376)**	(69,162)
Proceeds from issue of guaranteed bonds, net of issuance costs		**5,781,933**	–
New loans		**11,863,065**	21,354,437
Repayment of loans		**(19,233,724)**	(10,023,921)
Redemption of convertible bonds		**(3,178)**	(11,710)
Interest paid		**(1,304,707)**	(1,189,791)
Dividends paid		**(1,181,602)**	(1,123,313)
Dividends paid to non-controlling equity holders		**(300,493)**	(312,543)
Net cash flows (used in)/from financing activities		**(4,744,922)**	8,564,680
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,443,229**	1,286,209
Cash and cash equivalents at beginning of year		**11,223,622**	10,132,463
Effect of foreign exchange rate changes, net		**(457,719)**	(195,050)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**14,209,132**	11,223,622

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	**2015** **HK$'000**	2014 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances:			
Placed in banks	28	**8,097,898**	7,020,259
Placed in a financial institution	28	**1,345,140**	3,237,711
Time deposits:			
Placed in banks	28	**2,025,618**	853,117
Placed in a financial institution	28	**2,298,151**	155,354
Less: Restricted cash and pledged deposits	28	**(73,003)**	(58,735)
Cash and cash equivalents as stated in the consolidated statement of financial position		**13,693,804**	11,207,706
Less: Time deposits with maturity of more than three months when acquired		**(11,740)**	(154,771)
Add: Cash and bank balances attributable to disposal groups	29	**527,068**	170,687
Cash and cash equivalents as stated in the consolidated statement of cash flows		**14,209,132**	11,223,622

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") were involved in the following principal activities:

- the distribution and sale of piped natural gas, the provision of natural gas transmission, gas technology consultation and development services, surveying and plotting of underground construction projects, the construction and installation of gas pipelines and related equipment and the provision of repairs and maintenance services in Beijing, the People's Republic of China (the "PRC")

- the production, distribution and sale of brewery products in Beijing and other provinces in the PRC

- 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 the PRC and certain overseas countries

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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries

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

Company name	Place of incorporation/ registration and business	Issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
北京市燃氣集團有限責任公司 ("Beijing Gas")	PRC/Mainland China	RMB5,883,767,802	–	100	Distribution and sale of piped gas
北京燕京啤酒投資有限公司 ("Yanjing Investment")	PRC/Mainland China	RMB3,409,828,000	–	79.77	Investment holding
Beijing Yanjing Brewery Company Limited ("Yanjing Brewery")*	PRC/Mainland China	RMB2,808,451,958	–	45.78†	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan")#	PRC/Mainland China	RMB250,000,000	–	22.90†	Production and sale of beer
燕京啤酒(包頭雪鹿)股份有限公司	PRC/Mainland China	RMB547,300,000	–	42.31†	Production and sale of beer
燕京啤酒(桂林漓泉)股份有限公司	PRC/Mainland China	RMB349,366,900	–	34.69†	Production and sale of beer
燕京啤酒(桂林玉林)股份有限公司	PRC/Mainland China	RMB430,000,000	–	35.13†	Production and sale of beer
燕京啤酒(赤峰)有限責任公司	PRC/Mainland China	RMB367,110,200	–	43.16†	Production and sale of beer
燕京啤酒(新疆)有限責任公司	PRC/Mainland China	RMB683,650,000	–	45.78†	Production and sale of beer
燕京啤酒(衡陽)有限公司	PRC/Mainland China	RMB525,660,000	–	45.80†	Production and sale of beer
燕京啤酒(萊州)有限公司	PRC/Mainland China	RMB187,053,800	–	68.87	Production and sale of beer
燕京啤酒(仙桃)有限公司	PRC/Mainland China	RMB292,353,000	–	45.67†	Production and sale of beer

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Company name	Place of incorporation/ registration and business	Issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
燕京啤酒(曲阜三孔)有限責任公司	PRC/Mainland China	RMB260,817,189	–	84.88	Production and sale of beer
燕京啤酒(四川)有限公司	PRC/Mainland China	RMB480,000,000	–	45.78†	Production and sale of beer
燕京啤酒(晉中)有限公司	PRC/Mainland China	RMB250,000,000	–	45.78†	Production and sale of beer
廣東燕京啤酒有限公司	PRC/Mainland China	RMB809,880,000	–	58.23	Production and sale of beer
新疆燕京農產品開發有限公司	PRC/Mainland China	RMB230,000,000	–	45.78†	Production and sale of raw materials
北京高安屯垃圾焚燒有限公司	PRC/Mainland China	RMB274,000,000	–	84.90	Solid waste treatment operation
張家港金洲再生能源有限公司	PRC/Mainland China	RMB282,000,000	–	100	Solid waste treatment operation
Beijing Development (Hong Kong) Limited ("Beijing Development") Ω	Hong Kong	HK$2,225,722,752	1.16	49.27	Solid waste treatment business

† *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 Beijing Development 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.

Further details of the acquisition of subsidiaries during the year are disclosed in note 43(a) to the financial statements.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for (i) investment properties and certain available-for-sale investments which have been measured at fair value; and (ii) disposal groups held for sale which are stated at the lower of its carrying amount and fair value less costs to sell, as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2015. 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.

2.1 BASIS OF PREPARATION

Basis of consolidation *(Continued)*

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 profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements:

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

Other than as further explained below regarding the impact of amendments to HKAS 19, the adoption of the above revised standards has had no significant financial effect on these financial statements.

Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have contributions from employees or third parties to defined benefit plans.

In addition, the requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) came into effect for the first time during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the consolidation Exceptions*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operation*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

1 *Effective for annual periods beginning on or after 1 January 2016*

2 *Effective for annual periods beginning on or after 1 January 2018*

3 *Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group*

4 *No mandatory effective date is determined but is available for early adoption.*

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs *(Continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

(a) In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

(b) The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively.

(c) The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

(d) HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs *(Continued)*

(e) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

(f) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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.

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

The Group's investments in associates and joint ventures 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.

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

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 significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

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 the parent of the Group.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

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

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. When an item of property, plant and equipment is part of disposal groups classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Disposal groups held for sale".

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 the statement of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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:

Leasehold land	Over the lease terms
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

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property 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.

When a property occupied by the Group as an owner-occupied property becomes an investment property, any difference between the carrying amount and the fair value of the property at the date of change in use is accounted for as follows:

(a) any resulting decrease in the carrying amount of the property is recognised in the statement of profit or loss in the period the change in use takes place.

(b) any resulting increase in the carrying amount is credited to the statement of profit or loss, to the extent that the increase reverses a previous impairment loss for that property, or restores the carrying amount of the property to an amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the property in prior periods; and any remaining part of the increase in the carrying amount is credited directly to equity in the property revaluation reserve. On subsequent disposal of the property, the relevant portion of the property revaluation reserve realised is transferred to retained profits as a movement in reserves.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Disposal groups held for sale

Disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the disposal groups must be available for immediate sale in their present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and their sale must be highly probable. All assets and liabilities of a subsidiary classified as disposal groups are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor, are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

Consideration given by the grantor (Continued)

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

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

Construction or upgrade services

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

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" 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 as 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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 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.

Operating concessions

Operating concessions represent the rights to operate a toll road, sewage and water treatment plants and solid waste treatment 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 20 to 40 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.

Operating right

Operating right represents the fair value of the non-guarantee receipt right to receive cash from service concession arrangement under a Build-Operate-Own basis ("BOO"). Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the respective subsidiaries of the Group.

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 arising from the projects 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. Development expenditure which does not meet these criteria is expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, goodwill, deferred tax assets, financial assets, inventories, amounts due from contract customers and non-current assets/disposal groups classified as held for sale), 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 to sell, 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.

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

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of a non-financial 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 financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement

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

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

Financial assets at fair value through profit or loss are equity investments held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other operating expenses in profit or loss. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy for "Other investment income" set out in "Revenue recognition" below.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate and transaction costs. The effective interest rate amortisation is included in "Revenue" or "Other income and gains, net", as appropriate, in profit or loss. The loss arising from impairment is recognised as other operating expenses in profit or loss.

(c) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments that are designated as available for sale. After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve, until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss as other income and gains, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss as other operating expenses. Dividends earned whilst holding the available-for-sale financial investments are reported as investment income and are recognised as other income and gains in profit or loss in accordance with the policy set out in "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for these investments or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any accumulated impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(a) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss as other operating expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment (Continued)

(b) Available-for-sale investments carried at fair value

For available-for-sale investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from the available-for-sale investment revaluation reserve and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss) is removed from the available-for-sale investment revaluation reserve and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in the available-for-sale investment revaluation reserve.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

(c) Available-for-sale investments carried at cost

If there is objective evidence that an impairment loss has been incurred on an unlisted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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 the asset. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement

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

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss represent conversion options of convertible bonds that exhibit characteristics of an embedded derivative. Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(b) Loans and borrowings

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

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

Derecognition

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of best estimate of the expenditure required to settle the present obligation at the end of the reporting period and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Convertible bonds

Convertible bonds containing an equity component

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Convertible bonds *(Continued)*

Convertible bonds containing an equity component (Continued)

Upon the exercise of the conversion options, the resulting shares issued are recorded by the relevant companies in the Group as additional share capital at the total carrying amount of the liability and equity components of the convertible bonds. When convertible bonds are redeemed, the carrying amount of the equity component is transferred to retained profits as a movement in reserves and any difference between the amount paid and the carrying amount of the liability component is recognised in profit or loss. Where the conversion option remains unexercised at the expiry date, any remaining balance of the equity component of the convertible bonds will be transferred to retained profits as a movement in reserves. No gain or loss is recognised in the statement of profit or loss upon conversion or expiration of the conversion option.

Convertible bonds containing a derivative component

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest rate method. The derivative component of the convertible bonds is measured at fair value with changes in fair value recognised in profit or loss. Upon the exercise of the conversion options, the resulting shares issued are recorded by the relevant entity in the Group as additional share capital at the total carrying amount of the liability and derivative components of the convertible bonds. When convertible bonds are redeemed, any difference between the amount paid and the total carrying amounts of the liability and derivative components 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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 the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises (i) the agreed contract amounts and appropriate amounts from variation orders, claims and incentive payments in respect of the construction services for comprehensive renovation projects and (ii) construction revenue recognised under Build-Operate-Transfer ("BOT") contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from the construction services for comprehensive renovation projects is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from the construction of waste power plants and sewage treatment plants under the terms of BOT contracts (service concession agreements) 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, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

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.

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 as finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

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

Current tax assets and liabilities for the current and prior periods 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, associates and joint ventures, 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.

Deferred tax assets are recognised for all deductible temporary differences, 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, associates and joint ventures, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or is deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation/amortisation charge.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage-of-completion basis, as further explained in the accounting policy for "Construction contracts" above;

(c) from the rendering of services, on the percentage-of-completion basis, as further explained in the accounting policy for "Contracts for services" above;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a short period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Share-based payments

The Company 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 the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees 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 the Company is determined by external valuers using the binomial lattice model.

The cost of equity-settled transactions is recognised in the statement of profit or loss, together with a corresponding increase in the share option 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 the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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.

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

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Pension schemes

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

For those employees that have not yet joined a pension scheme, the Group has accrued for the estimated future pension costs based on a percentage of their salaries. The related assets for the purpose of discharging such liabilities are not separately held from those of the Group.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of 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.

Other retirement benefits

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 the consolidated 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 using the interest rates of the PRC government bonds which have terms similar to those of related liabilities. Actuarial gains and losses, which are remeasurements arising from defined benefit pension plans, are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

Other retirement benefits (Continued)

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

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 the consolidated profit or loss by function:

- 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item 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 items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain Mainland China and overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of comprehensive income 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622) in the year ended 31 December 2014, proposed final dividends are only disclosed in the notes to the financial statements and no separate allocation of retained profits is made within the equity.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Associate

The Group regards Beijing Enterprises Water Group Limited ("BE Water", an entity listed on the Hong Kong Stock Exchange with its 43.84% equity interest held by the Group as at 31 December 2015) as an associate. In determining whether the Group has control over BE Water, the Group has taken into account its effective influence it may exercise over the decisions of BE Water's board of directors, including the voting rights held by the Group, the structure of the board of directors and senior management of BE Water and the expertise of directors designated by other shareholders. In the opinion of the directors, the Group did not have the sufficient ability to exercise power to control BE Water throughout the year ended 31 December 2015 and BE Water was accounted for as an associate in the Group's consolidated financial statements.

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

Estimate of gas consumption

Determination of the revenue for the distribution and sale of piped gas may include an estimation of the gas supplied to customers for whom actual metre reading is not available. The estimation is done mainly based on the past consumption records and the recent consumption pattern of individual customers.

In addition, with respect to the distribution and sale of piped gas, the Group recognises revenue from prepayments made by customers using integrated circuit cards ("IC card customers") upon their consumption of gas. The Group's management estimates the consumption of gas by IC card customers with reference to the average consumption volume of the customers for whom metre reading is available with similar consumption patterns.

The actual consumption could deviate from those estimates.

Useful lives and residual values of property, plant and equipment

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

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 to sell of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2015 was HK$8,927,959,000 (2014: HK$8,899,765,000, restated), details of which are set out in note 16 to the financial statements. The carrying amount of goodwill included in disposal group classified as held for sale as at 31 December 2015 was HK$657,372,000 (2014: HK$810,897,000), details of which are set out in note 29 to the financial statements.

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

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

The carrying amounts of items of property, plant and equipment and other intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows or compensation to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. The carrying amounts of property, plant and equipment and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2015 were HK$37,735,621,000 (2014: HK$39,320,530,000) and HK$2,533,370,000 (2014: HK$2,496,105,000, restated), respectively, details of which are set out in notes 13, 17 and 18 to the financial statements.

Impairment of available-for-sale investments

The Group follows the guidance of HKAS 39 in determining when an investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and the extent to which the estimated value of an investment is less than its cost; and the financial health of and the short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operating and financing cash flows. The carrying amount of available-for-sale investments carried as assets in the consolidated statement of financial position as at 31 December 2015 was HK$1,012,557,000 (2014: HK$1,084,098,000), details of which are set out in note 21 to the financial statements.

Impairment of receivables under service concession arrangements, trade and bills receivables and other receivables

The Group's management determines the provision for impairment of receivables under service concession arrangements, trade and bills receivables and other receivables. This estimate is based on the evaluation of collectibility and aged analysis of accounts and on management's estimation in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor and the provision is applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. Management reassesses the adequacy of provision on a regular basis. The identification of impairment of receivables requires the use of judgements and estimates. Where the expectations are different from the original estimates, such differences will impact on the carrying values of receivables and the impairment of receivables recognised in the periods in which such estimates have been changed. The carrying amounts of receivables under service concession arrangements, trade and bills receivables and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2015 were HK$1,790,765,000 (2014: HK$1,160,679,000, restated), HK$3,544,455,000 (2014: HK$5,320,835,000) and HK$3,418,902,000 (2014: HK$4,197,980,000), respectively, details of which are set out in notes 17, 24 and 25 to the financial statements.

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

Provision against obsolete and slow-moving inventories

Management reviews the condition of inventories of the Group and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of each reporting period.

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of inventories carried as assets in the consolidated statement of financial position as at 31 December 2015 was HK$4,644,199,000 (2014: HK$5,393,368,000), details of which are set out in note 22 to the financial statements.

Defined benefit plans

The present value of the retirement benefit obligations under the various defined benefit plans of the Group depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligations. Key assumptions for the obligations are based in part on the current market conditions. The carrying amount of the obligations carried as liabilities in the consolidated statement of financial position under defined benefit plans as at 31 December 2015 was HK$837,704,000 (2014: HK$682,523,000), details of which are disclosed in note 36 to the financial statements.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and overseas. The Group carefully evaluates tax implications of transactions in accordance with the prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of income tax payables carried as liabilities in the consolidated statement of financial position as at 31 December 2015 was HK$494,147,000 (2014: HK$342,499,000).

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried in the consolidated statement of financial position as at 31 December 2015 were HK$779,713,000 (2014: HK$678,460,000) and HK$480,481,000 (2014: HK$384,350,000, restated), respectively, details of which are set out in note 39 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

(a) the piped gas operation segment engages in the distribution and sale of piped natural gas, the provision of natural gas transmission, gas technology consultation and development services, the surveying and plotting of underground construction projects, the construction and installation of gas pipelines and related equipment and the provision of repairs and maintenance services;

(b) the brewery operation segment produces, distributes and sells brewery products;

(c) the sewage and water treatment operations 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 the PRC and certain overseas countries; and

(d) the corporate and others segment comprises the construction and operation of solid waste treatment plants and the sale of electricity and steam generated from solid waste treatment, the sale of IT related products, the provision of system integration and maintenance services and software development and consultation services, property investment and corporate income and expense items.

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

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2015

	Piped gas operation *HK$'000*	Brewery operation *HK$'000*	Sewage and water treatment operations *HK$'000*	Corporate and others *HK$'000*	Inter–segment elimination *HK$'000*	Consolidated *HK$'000*
Segment revenue	43,946,315	14,069,445	–	2,134,185	–	60,149,945
Cost of sales	(39,737,004)	(9,574,879)	–	(1,787,014)	–	(51,098,897)
Gross profit	4,209,311	4,494,566	–	347,171	–	9,051,048
Profit from operating activities	2,085,964	761,446	–	384,398	–	3,231,808
Finance costs	(102,379)	(79,752)	–	(1,119,732)	–	(1,301,863)
Share of profits and losses of:						
Joint ventures	(4,191)	–	–	4,008	–	(183)
Associates	3,374,838	6,259	1,077,087	249,928	–	4,708,112
Profit/(loss) before tax	5,354,232	687,953	1,077,087	(481,398)	–	6,637,874
Income tax	(271,912)	(241,260)	–	(168,789)	–	(681,961)
Profit/(loss) for the year	5,082,320	446,693	1,077,087	(650,187)	–	5,955,913
Segment profit/(loss) attributable to shareholders of the Company	5,065,227	142,520	1,077,087	(617,456)	–	5,667,378
Segment assets	71,097,885	22,246,260	7,565,313	26,448,237	(2,591,655)	124,766,040
Segment liabilities	16,663,896	7,174,547	–	34,867,082	(2,591,655)	56,113,870
Other segment information:						
Interest income	40,567	27,184	–	95,314	–	163,065
Depreciation	1,390,217	1,100,739	–	82,857	–	2,573,813
Amortisation of operating concessions	–	–	–	84,338	–	84,338
Amortisation of other intangible assets	26,019	–	–	11,561	–	37,580
Impairment/(reversal of impairment) against segment assets, net*	197,504	12,772	–	204,528	–	414,804
Write down to fair value less costs to sell for a disposal group held for sale	–	–	–	231,416	–	231,416
Investments in joint ventures	186,757	–	–	5,894	–	192,651
Investments in associates	23,202,366	196,406	7,483,795	716,832	–	31,599,399
Capital expenditure**	3,153,611	731,320	–	549,856	–	4,434,787

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2014

	Piped gas operation *HK$'000*	Brewery operation *HK$'000*	Sewage and water treatment operations *HK$'000*	Corporate and others *HK$'000*	Inter–segment elimination *HK$'000*	Consolidated *HK$'000*
Segment revenue	32,438,393	15,150,989	–	346,413	–	47,935,795
Cost of sales	(28,960,858)	(10,130,855)	–	(268,051)	–	(39,359,764)
Gross profit	3,477,535	5,020,134	–	78,362	–	8,576,031
Profit from operating activities	1,964,656	1,358,876	–	7,521	–	3,331,053
Finance costs	(264,383)	(93,188)	–	(814,920)	–	(1,172,491)
Share of profits and losses of:						
Joint ventures	4,860	–	–	(33)	–	4,827
Associates	2,977,116	(849)	789,962	40,863	–	3,807,092
Profit/(loss) before tax	4,682,249	1,264,839	789,962	(766,569)	–	5,970,481
Income tax	(210,689)	(314,208)	–	(39,937)	–	(564,834)
Profit/(loss) for the year	4,471,560	950,631	789,962	(806,506)	–	5,405,647
Segment profit/(loss) attributable to shareholders of the Company	4,454,238	387,515	789,962	(800,037)	–	4,831,678
Segment assets (restated)	70,277,913	24,309,263	7,382,087	25,211,112	(3,006,559)	124,173,816
Segment liabilities (restated)	18,923,706	8,648,299	–	31,512,390	(3,006,559)	56,077,836
Other segment information:						
Interest income	54,971	28,563	–	80,340	–	163,874
Depreciation	1,180,458	1,086,983	129	31,121	–	2,298,691
Amortisation of operating concessions	–	–	–	20,532	–	20,532
Amortisation of other intangible assets	27,188	–	–	4,259	–	31,447
Impairment/(reversal of impairment) against segment assets, net*	17,338	63,685	–	289,782	–	370,805
Investments in joint ventures	224,755	–	–	5,967	–	230,722
Investments in associates	25,183,835	199,889	7,594,344	297,135	–	33,275,203
Capital expenditure**	1,537,200	1,034,409	–	1,089,552	–	3,661,161

* *These amounts are recognised in the consolidated statement of profit or loss and included impairment/provision (reversal of impairment/provision) against items of property, plant and equipment, investment in an associate, operating concessions, trade and bills receivables and other receivables.*

** *Capital expenditure consists of additions of property, plant and equipment, operating concessions and other intangible assets, excluding assets from the acquisition of subsidiaries.*

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

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

Information about major customers

During each of the years ended 31 December 2015 and 2014, none of the Group's individual customers contributed to 10% or more of the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents: (1) the aggregate of the invoiced value of goods sold, net of value-added tax, consumption tax and government surcharges, and after allowances for returns and trade discounts; and (2) an appropriate proportion of contract revenue of construction contracts and service contracts, net of value-added tax, business tax and government surcharges.

An analysis of revenue, other income and gains, net is as follows:

	2015 ***HK$'000***	2014 *HK$'000*
Revenue		
Piped gas operation	**43,946,315**	32,438,393
Brewery operation	**14,069,445**	15,150,989
Corporate and others	**2,134,185**	346,413
	60,149,945	47,935,795

5. REVENUE, OTHER INCOME AND GAINS, NET *(Continued)*

	Notes	2015 HK$'000	2014 HK$'000
Other income			
Bank interest income		**163,065**	163,874
Rental income		**81,057**	18,815
Government grants*		**213,046**	247,578
Transfer of assets from customers	13	**40,325**	112,009
Income from forfeiture of deposit received		**77,500**	–
Others		**361,538**	250,183
		936,531	792,459
Gains, net			
Fair value gain on investment properties	14	**479,798**	–
Gain on disposal of available-for-sale investments carried at fair value, net		**20,617**	61,268
Foreign exchange differences, net		**27,224**	8,753
		527,639	70,021
Other income and gains, net		**1,464,170**	862,480

* *The government grants represented government subsidies, corporate income tax and turnover tax refunds. Turnover tax includes value-added tax, city construction tax and education surcharge. The government grants are unconditional, except for certain grants which must be utilised for the development of the Company's subsidiaries.*

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	2015 HK$'000	2014 HK$'000
Cost of inventories sold		**49,145,605**	38,944,146
Cost of services provided		**1,868,954**	395,086
Depreciation	13	**2,573,813**	2,298,691
Amortisation of prepaid land premiums	15	**65,759**	72,021
Amortisation of operating concessions*	17	**84,338**	20,532
Amortisation of other intangible assets**	18	**37,580**	31,447
Research and development expenditure		**84,612**	89,390
Loss on disposal of items of property, plant and equipment, net		**8,523**	14,569
Minimum lease payments under operating leases		**248,232**	235,462
Auditors' remuneration		**8,800**	8,800
Employee benefit expense (including directors' remuneration – note 8):			
Salaries, allowances and benefits in kind		**5,263,974**	4,561,316
Net pension scheme contributions		**635,174**	571,691
Net benefit expense of defined benefit plans**	36(a)	**72,162**	52,052
		5,971,310	5,185,059
Impairment of items of property, plant and equipment***	13	**155,832**	126,468
Write down to fair value less cost to sell for a disposal group held for sale***	29(a)	**231,416**	–
Impairment of investment in an associate***	29(c)	**76,478**	–
Impairment of operating concession***	17	**189,645**	190,000
Provision/(reversal of provision) for impairment of trade and bills receivables, net	24(c)	**(23,765)**	39,202
Impairment of other receivables, net	25(b)	**16,614**	15,135
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**46,230**	40,498

* *The amortisation of operating concessions for the year are included in "Cost of sales" on the face of the consolidated statement of profit or loss.*

** *The amortisation of other intangible assets and the net benefit expense of defined benefit plans for the year are included in "Administrative expenses" on the face of the consolidated statement of profit or loss.*

*** *The net impairment of items of property, plant and equipment, impairment of operating concessions, impairment of investment in an associate and write down to fair value less cost to sell for a disposal group held for sale for the year are included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss.*

7. FINANCE COSTS

	Note	2015 HK$'000	2014 HK$'000
Interest on bank loans, overdrafts and other loans		**537,247**	466,168
Interest on guaranteed bonds and senior notes		**767,022**	722,578
Interest on convertible bonds	*35*	**438**	7,036
Imputed interest on convertible bonds	*35*	**–**	4,235
Total finance costs		**1,304,707**	1,200,017
Less: Interest included in construction in progress		**(2,844)**	(27,526)
		1,301,863	1,172,491

8. 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:

	2015 HK$'000	2014 HK$'000
Fees	**2,720**	3,165
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**17,559**	15,854
Pension scheme contributions	**29**	24
	17,588	15,878
	20,308	19,043

8. 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 2015				
Executive directors:				
Mr. Wang Dong	180	3,887	–	4,067
Mr. Zhou Si	180	3,307	–	3,487
Mr. Li Fucheng	400	–	–	400
Mr. Hou Zibo	180	3,218	–	3,398
Mr. E Meng	150	2,514	–	2,664
Mr. Jiang Xinhao	150	2,616	–	2,766
Mr. Tam Chun Fai	150	2,017	29	2,196
Mr. Li Yongcheng	150	–	–	150
	1,540	17,559	29	19,128
Non-executive director:				
Mr. Guo Pujin (resigned on 28 August 2015)	100	–	–	100
	1,640	17,559	29	19,228
Independent non-executive directors:				
Mr. Wu Jiesi	216	–	–	216
Mr. Lam Hoi Ham	216	–	–	216
Mr. Fu Tingmei	216	–	–	216
Mr. Sze Chi Ching	216	–	–	216
Mr. Shi Hanmin*	–	–	–	–
Dr. Yu Sun Say	216	–	–	216
	1,080	–	–	1,080
Total directors' remuneration	2,720	17,559	29	20,308

8. DIRECTORS' REMUNERATION *(Continued)*

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2014				
Executive directors:				
Mr. Wang Dong	180	3,893	–	4,073
Mr. Zhou Si	180	3,276	–	3,456
Mr. Zhang Honghai	60	169	–	229
Mr. Li Fucheng	400	–	–	400
Mr. Hou Zibo	173	1,936	–	2,109
Mr. Liu Kai	125	–	–	125
Mr. Lei Zhengang	38	–	–	38
Mr. E Meng	150	2,322	–	2,472
Mr. Jiang Xinhao	150	2,322	–	2,472
Mr. Tam Chun Fai	150	1,936	24	2,110
Mr. Li Yongcheng	113	–	–	113
	1,719	15,854	24	17,597
Non-executive director:				
Mr. Guo Pujin	150	–	–	150
	1,869	15,854	24	17,747
Independent non-executive directors:				
Mr. Wu Jiesi	216	–	–	216
Mr. Robert A. Theleen	216	–	–	216
Mr. Lam Hoi Ham	216	–	–	216
Mr. Fu Tingmei	216	–	–	216
Mr. Sze Chi Ching	216	–	–	216
Mr. Shi Hanmin	54	–	–	54
Dr. Yu Sun Say	162	–	–	162
	1,296	–	–	1,296
Total directors' remuneration	3,165	15,854	24	19,043

Note* Mr. Shi Hanmin waived to receive any remuneration from the Company for the year ended 31 December 2015. Save as disclosed above, there was no agreement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

All of the five highest paid employees of the Group during each of the years ended 31 December 2015 and 2014 are directors of the Company, details of whose remuneration for the years are set out in note 8 to the financial statements.

10. INCOME TAX

	Note	**2015** **HK$'000**	2014 HK$'000
Current:			
Mainland China		**672,620**	596,379
Hong Kong		**4,996**	2,884
Deferred	*39*	**4,345**	(34,429)
Total tax expense for the year		**681,961**	564,834

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year (2014: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries established in Mainland China enjoy PRC corporate income tax exemptions and reductions.

10. INCOME TAX *(Continued)*

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:

2015

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	825,086		5,812,788		6,637,874	
Tax expense at the statutory tax rate	136,139	16.5	1,453,197	25.0	1,589,336	23.9
Lower tax rate for specific provinces or enacted by local authority	–	–	(491,883)	(8.5)	(491,883)	(7.4)
Profits and losses attributable to joint ventures and associates	(286,401)	(34.7)	(405,691)	(7.0)	(692,092)	(10.4)
Income not subject to tax	(63,114)	(7.6)	(106,779)	(1.8)	(169,893)	(2.6)
Expenses not deductible for tax	218,104	26.4	31,667	0.5	249,771	3.8
Withholding tax on the distributable profits of the Group's PRC subsidiaries	–	–	10,919	0.2	10,919	0.2
Tax losses not recognised as deferred tax assets	268	–	185,535	3.2	185,803	2.8
Tax expense at the Group's effective tax rate	4,996	0.6	676,965	11.6	681,961	10.3

10. INCOME TAX *(Continued)*

2014

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	541,213		5,429,268		5,970,481	
Tax expense at the statutory tax rate	89,300	16.5	1,357,317	25.0	1,446,617	24.2
Lower tax rate for specific provinces or enacted by local authority	–	–	(529,892)	(9.8)	(529,892)	(8.9)
Profits and losses attributable to joint ventures and associates	(192,853)	(35.6)	(353,317)	(6.5)	(546,170)	(9.1)
Income not subject to tax	(182,993)	(33.8)	(245,146)	(4.5)	(428,139)	(7.2)
Expenses not deductible for tax	110,342	20.4	34,679	0.6	145,021	2.4
Withholding tax on the distributable profits of the Group's PRC subsidiaries	–	–	33,111	0.6	33,111	0.6
Tax losses not recognised as deferred tax assets	179,088	33.1	283,989	5.2	463,077	7.8
Tax losses utilised from previous periods	–	–	(18,791)	(0.3)	(18,791)	(0.3)
Tax expense at the Group's effective tax rate	2,884	0.5	561,950	10.4	564,834	9.5

The share of tax attributable to joint ventures and associates amounting to HK$1,906,000 (2014: Nil) and HK$1,547,333,000 (2014: HK$1,239,592,000), respectively, is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

	2015 HK$'000	2014 HK$'000
Interim – HK$0.30 (2014: HK$0.28) per ordinary share	**385,305**	359,618
Proposed final – HK$0.65 (2014: HK$0.62) per ordinary share	**833,853**	796,297
	1,219,158	1,155,915

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

12. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of ordinary shares in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2015.

The calculation of the diluted earnings per share amount for the year ended 31 December 2014 was based on the profit for that year attributable to shareholders of the Company, adjusted to reflect the effect of the deemed conversion of all dilutive convertible bonds of the Group at the beginning of that year, and the weighted average number of ordinary shares in issue during that year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed conversion of those convertible bonds of the Group which are convertible into ordinary shares of the Company at the beginning of that year.

12. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(Continued)

The calculation of the basic and diluted earnings per share amounts is based on the following data:

	2015	2014
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	**5,667,378**	4,831,678
Interest expense for the year relating to the liability component of the dilutive convertible bonds of the Group	**–**	6,118
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	**5,667,378**	4,837,796

	2015	2014
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**1,283,912,186**	1,279,452,041
Effect of dilution – weighted average number of ordinary shares: Convertible bonds	**–**	5,438,257
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**1,283,912,186**	1,284,890,298

13. PROPERTY, PLANT AND EQUIPMENT

	Notes	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000 (note (a))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 (note (b))	Total HK$'000
Year ended 31 December 2015									
At 1 January 2015:									
Cost		12,620,072	104,965	17,962,726	18,082,715	1,131,266	865,789	5,711,228	56,478,761
Accumulated depreciation and impairment		(2,546,834)	(20,466)	(3,829,816)	(9,538,500)	(616,846)	(458,049)	(147,720)	(17,158,231)
Net carrying amount		10,073,238	84,499	14,132,910	8,544,215	514,420	407,740	5,563,508	39,320,530
Net carrying amount:									
At 1 January 2015		10,073,238	84,499	14,132,910	8,544,215	514,420	407,740	5,563,508	39,320,530
Acquisition of subsidiaries	43	15,106	–	42,837	22,750	5,224	2,619	23,269	111,805
Additions		146,749	462	76,535	219,994	53,461	36,872	3,429,125	3,963,198
Transfer of assets from customers	5	–	–	20,911	19,414	–	–	–	40,325
Transfer from construction in progress		760,383	–	1,102,874	1,968,940	7,914	4,935	(3,845,046)	–
Fair value gain on revaluation of a building upon transfer to investment properties		29,685	–	–	–	–	–	–	29,685
Transferred to investment properties	14	(57,091)	–	–	–	–	–	–	(57,091)
Depreciation provided during the year	6	(400,546)	(2,346)	(715,986)	(1,291,018)	(94,338)	(69,579)	–	(2,573,813)
Impairment during the year recognised in profit or loss	6	–	–	–	–	–	–	(155,832)	(155,832)
Transfer to assets of disposal groups classified as held for sale	29	(174,093)	–	(595,555)	(114,354)	(6,055)	(14,643)	(47,503)	(952,203)
Disposals		(21,560)	–	(442)	(61,707)	(126)	(7,717)	–	(91,552)
Exchange realignment		(492,073)	(193)	(686,156)	(443,574)	(16,171)	(17,624)	(243,640)	(1,899,431)
At 31 December 2015		9,879,798	82,422	13,377,928	8,864,660	464,329	342,603	4,723,881	37,735,621
At 31 December 2015:									
Cost		12,626,208	104,705	17,623,372	19,126,131	1,131,125	812,920	5,003,314	56,427,775
Accumulated depreciation and impairment		(2,746,410)	(22,283)	(4,245,444)	(10,261,471)	(666,796)	(470,317)	(279,433)	(18,692,154)
Net carrying amount		9,879,798	82,422	13,377,928	8,864,660	464,329	342,603	4,723,881	37,735,621

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

	Notes	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Gas pipelines HK$'000 (notes (c))	Gas metres and other plant and machinery HK$'000 (notes (a) and (c))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2014									
At 1 January 2014:									
Cost		11,716,565	23,619	16,575,183	16,575,984	912,275	845,136	7,457,100	54,105,862
Accumulated depreciation and impairment		(2,202,872)	(13,440)	(3,175,881)	(8,594,715)	(553,974)	(416,986)	(151,227)	(15,109,095)
Net carrying amount		9,513,693	10,179	13,399,302	7,981,269	358,301	428,150	7,305,873	38,996,767
Net carrying amount:									
At 1 January 2014		9,513,693	10,179	13,399,302	7,981,269	358,301	428,150	7,305,873	38,996,767
Acquisition of subsidiaries	43	173,105	71,535	7,829	604,904	154,043	5,363	139,304	1,156,083
Additions		105,563	10,330	4,734	285,811	85,719	57,293	1,992,451	2,541,901
Transfer of assets from customers	5	–	–	67,677	44,332	–	–	–	112,009
Transfer from construction in progress		910,620	–	1,774,553	980,760	19,851	3,107	(3,688,891)	–
Depreciation provided during the year	6	(354,582)	(7,355)	(748,890)	(1,032,055)	(86,998)	(68,811)	–	(2,298,691)
Impairment during the year recognised in profit or loss	6	–	–	(26,468)	(100,000)	–	–	–	(126,468)
Transfer to assets of a disposal group classified as held for sale	29	(6,980)	–	(7,166)	(15,071)	(188)	(1,850)	(2,239)	(33,494)
Disposals		(29,388)	–	(3,354)	(7,938)	(5,989)	(4,905)	(343)	(51,917)
Reclassification		–	–	(325)	1,720	(1,395)	–	–	–
Exchange realignment		(238,793)	(190)	(334,982)	(199,517)	(8,924)	(10,607)	(182,647)	(975,660)
At 31 December 2014		10,073,238	84,499	14,132,910	8,544,215	514,420	407,740	5,563,508	39,320,530
At 31 December 2014:									
Cost		12,620,072	104,965	17,962,726	18,082,715	1,131,266	865,789	5,711,228	56,478,761
Accumulated depreciation and impairment		(2,546,834)	(20,466)	(3,829,816)	(9,538,500)	(616,846)	(458,049)	(147,720)	(17,158,231)
Net carrying amount		10,073,238	84,499	14,132,910	8,544,215	514,420	407,740	5,563,508	39,320,530

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

Notes:

(a) At 31 December 2015, plant and machinery of the Group situated in Mainland China with a net carrying amount of HK$77,381,000 (2014: HK$81,250,000) were pledged to secure bank loans granted to the Group (note 33(c)(ii)).

(b) During the year ended 31 December 2015, construction in progress of the Group amounting to HK$155,832,000 were individually determined to be impaired with an aggregate carrying amount before impairment of HK$155,832,000 (note 6). The impairment of HK$155,832,000 represented the carrying amounts of construction of gas pipelines which had been suspended for some time and the recoverable amounts are expected to be minimal.

(c) During the year ended 31 December 2014, property, plant and equipment of the Group amounting to HK$126,468,000 were individually determined to be impaired with an aggregate carrying amount before impairment of HK$331,844,000 (note 6).

14. INVESTMENT PROPERTIES

	Notes	**2015** ***HK$'000***	2014 *HK$'000*
Carrying amount at 1 January		**703,749**	719,968
Transfer from property, plant and equipment	*13*	**57,091**	–
Net gain from a fair value adjustment	*5*	**479,798**	–
Exchange realignment		**(46,380)**	(16,219)
Carrying amount at 31 December		**1,194,258**	703,749

Notes:

(a) The investment properties are leased to third parties under operating leases, further summary details of which are included in note 46(a) to the financial statements.

(b) At 31 December 2015, the investment properties were revalued based on valuations performed by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, using the investment method and direct comparison method. Fair value gain of HK$479,798,000 (2014: Nil) was recognised on the Group's investment properties during the year ended 31 December 2015.

(c) 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's chief financial officer has discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

14. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

Fair value hierarchy disclosure

The following table illustrates the fair value measurement of the Group's investment properties using:

	Fair value measurement using significant unobservable inputs (Level 3)	
	2015	2014
	HK$'000	*HK$'000*
Recurring fair value measurement for:		
Office buildings	**1,194,258**	703,749

The fair values of all the Group's investment properties were revalued by reference to significant unobservable inputs (Level 3).

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 (2014: Nil). The definitions of Level 1, Level 2 and Level 3 are explained under the heading of "Fair value measurement" in note 2.4 to the financial statements.

In the opinion of the directors, for all investment properties that are measured at fair value, the current use of the properties is their highest and best use.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques*	Significant unobservable inputs	Range or weighted average	
			2015	2014
Office buildings	Investment method and direct comparison method	Estimated rental value per square metre and per month (HK$)	**85 to 386**	68 to 319
		Capitalisation rate	**8% to 8.5%**	8% to 10%
		Price per square metre (HK$)	**8,327 to 52,189**	6,900 to 41,524

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

Significant increases/(decreases) in estimated rental value or price per square metre in isolation would result in a significant higher/(lower) fair value of the investment properties. Significant increases/(decreases) in the capitalisation rate in isolation would result in a significant lower/(higher) fair value of the investment properties.

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

15. PREPAID LAND PREMIUMS

	Notes	2015 HK$'000	2014 HK$'000
Carrying amount at 1 January		**2,004,100**	1,839,118
Acquisition of subsidiaries	*43*	**–**	107,417
Additions		**90,958**	184,464
Transfer to assets of disposal groups held for sale	*29*	**–**	(8,884)
Amortisation provided during the year	*6*	**(65,759)**	(72,021)
Exchange realignment		**(96,045)**	(45,994)
Carrying amount at 31 December		**1,933,254**	2,004,100
Portion classified as current assets		**(45,222)**	(44,860)
Non-current portion		**1,888,032**	1,959,240

16. GOODWILL

	Notes	2015 HK$'000	2014 HK$'000 (Restated)
Cost and net carrying amount:			
At 1 January		**8,899,765**	7,659,735
Acquisition of subsidiaries*	*43*	**143,171**	2,069,906
Transfer to assets of disposal groups held for sale*	*29*	**(78,026)**	(810,897)
Exchange realignment		**(36,951)**	(18,979)
At 31 December		**8,927,959**	8,899,765

* The amounts for the year ended 31 December 2014 have been restated since the initial accounting in respect of the acquisition of GSEI has been completed during the year, details of which are set out in note 43(b)(iv) to the financial statements.

16. 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	2015 HK$'000	2014 HK$'000 (Restated)
Piped gas operation	*(i)*	**7,006,013**	7,028,360
Brewery operation	*(ii)*	**481,128**	505,185
Solid waste treatment operation	*(iii)*	**1,368,697**	1,293,916
Others		**72,121**	72,304
		8,927,959	8,899,765

Notes:

(i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by Crowe Horwath (HK) Consulting & Valuation Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on 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 projections is 10% (2014: 11.5%), which is determined by reference to the average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 3% (2014: 3%) is used for the perpetual period.

(ii) Goodwill attributable to the brewery operation mainly arose from the Group's investments in Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), the recoverable amount of which was determined on the fair value less costs to sell basis by reference to the market value of the shares of Yanjing Brewery held by the Group (as categorised within Level 1 of the fair value hierarchy) as at 31 December 2015.

(iii) Goodwill attributable to the solid waste treatment operation mainly arose from the Group's investment in GSWM (as defined in note 29 to the financial statements), which was acquired by the Group in December 2014 and details of which are set out in note 43(b)(iv).

The goodwill on acquisition as disclosed in the financial statements for the year ended 31 December 2014 represented the then provisional amount estimated by the directors of the Company as the Group had not completed the fair value measurement of the identifiable net assets acquired and the initial accounting for the acquisition was incomplete. The related assessment was completed during the year ended 31 December 2015 and the final amount of goodwill arising from the acquisition was HK$1,063,165,000, as compared with the provisional goodwill of HK$996,089,000 initially recognised and the increase of HK$67,076,000 was adjusted retrospectively in the current year's financial statements.

The recoverable amount of the solid waste treatment operation has been determined by reference to a business valuation performed by Crowe Horwath (HK) Consulting & Valuation Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on financial forecast approved by senior management covering the service concession period and based on the assumption that the operation can generate cash flows within the respective concession periods of the relating solid waste treatment projects. The discount rate applied to the cash flow projections is 10.7%, which is determined by reference to the average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 2.5% is used for the concession period.

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill (other than those included in disposal groups classified as held for sale) as at 31 December 2015 (2014: Nil). Details of the impairment testing of goodwill in respect of disposal groups classified as held for sale are set out in note 29 to the financial statements.

Key assumptions used in value in use calculation

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

- Budgeted turnover
  The budgeted turnover is based on the projected piped gas sales volume.

- Budgeted gross margins
  In respect of the relevant business units in the piped gas operation segment, the budgeted gross margins is based on the latest gas selling price up to the date of the valuation report.

- Discount rate
  The discount rates used is before tax and reflect specific risks relating to the piped gas operation.

- 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.

  - As the gas supply network has already been set up in most urban areas in Beijing, where the Group's piped gas operation is located, and due to the high degree of idiosyncratic features of the gas supply business, the high construction and fixed costs in establishing alternative gas supply network in these urban districts in Beijing are too huge 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.

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in value in use calculation (Continued)

Solid waste treatment operation

- Budgeted turnover

  The budgeted turnover is based on the projected solid waste treatment volume and the latest solid waste treatment and electricity selling prices up to the date of the forecast.

- Budgeted gross margins

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

- Discount rate

  The discount rates used are before tax and reflect specific risks relating to the relevant unit.

- Business environment

  There have been no major changes in the existing political, legal and economic conditions in Mainland China.

17. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into certain service concession arrangements with certain governmental authorities in Mainland China on a BOT or a Transfer-Operate-Transfer ("TOT") basis in respect of its toll road operation, sewage and water treatment operations and solid waste treatment operations. These service concession arrangements generally involve the Group as an operator (i) constructing the infrastructures for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the infrastructures at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 15 to 30 years (the "service concession periods"), and 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.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Operating concessions

	Notes	2015 HK$'000 (note (a))	2014 HK$'000 (Restated) (note (a))
At 1 January:			
Cost		**3,671,935**	2,023,997
Accumulated amortisation and impairment		**(1,412,808)**	(1,417,705)
Net carrying amount		**2,259,127**	606,292
Net carrying amount:			
At 1 January		**2,259,127**	606,292
Acquisition of subsidiaries*	43	**–**	1,174,303
Additions		**386,227**	1,026,399
Amortisation provided during the year	6	**(84,338)**	(20,532)
Transfer to assets of disposal groups held for sale*	29	**–**	(333,204)
Impairment	6	**(189,645)**	(190,000)
Exchange realignment		**(120,845)**	(4,131)
At 31 December		**2,250,526**	2,259,127
At 31 December:			
Cost		**3,891,890**	3,671,935
Accumulated amortisation and impairment		**(1,641,364)**	(1,412,808)
Net carrying amount		**2,250,526**	2,259,127

* *The amounts for the year ended 31 December 2014 have been restated since the initial accounting in respect of the acquisition of GSEI has been completed during the year, details of which are set out in note 43(b)(iv) to the financial statements.*

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2015 HK$'000	2014 HK$'000 (Restated)
Receivables under service concession arrangements attributable to solid waste treatment operation* *(notes (a)(i) and (b))*	**1,790,765**	1,160,679
Portion classified as current assets	**(135,675)**	(140,425)
Non-current portion	**1,655,090**	1,020,254

* *The amounts for the year ended 31 December 2014 have been restated since the initial accounting in respect of the acquisition of GSEI has been completed during the year, details of which are set out in note 43(b)(iv) to the financial statements.*

Notes:

(a) The operating concessions of the Group are mainly attributable to solid waste treatment operation and toll road operation and details of the service concession arrangements are as follows:

(i) At 31 December 2015, the Group had 9 (2014: 8) service concession arrangements on solid waste treatment with certain governmental authorities in Mainland China.

At 31 December 2015, certain solid waste treatment operation rights of the Group (comprising operating concessions and receivables under service concession arrangements) with an aggregate net carrying amount of HK$1,163,953,000 (2014: HK$1,119,826,000) were pledged to secure certain bank loans granted to the Group (note 33(c)(i)).

(ii) Pursuant to a co-operative joint venture agreement dated 18 July 2001 entered into between Hong Kong Zhong Ji Facility Investment Co., Ltd., a 96.5% indirectly-held subsidiary of the Company, and 深圳市石觀公路有限公司 ("Shiguan Road Limited") for the establishment of Shenzhen Guanshun Road & Bridge Co., Ltd. ("Shenzhen Guanshun", a 53.08% indirectly-held subsidiary of the Company), and as approved by the relevant government authorities, Shiguan Road Limited transferred to Shenzhen Guanshun for a total consideration of RMB652 million an operating right to operate the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC, for a period of 20 years commenced on 12 April 2002.

The Group was ordered by the Shenzhen Municipal Government to cease charging the public for the use of the Shenzhen Shiguan Road and Bridge operated by Shenzhen Guanshun by 31 December 2011.

The Group has been negotiating with the relevant government authorities in Shenzhen to work out a scheme relating to severance, compensation and all other matters to prepare for the cessation of the toll road operation of Shenzhen Guanshun, however, no concrete detail of the scheme has been reached as at the date of approval of these financial statements. In the opinion of the directors, recoverability of the compensation is remote and therefore an impairment provision against the operating concession in respect of the Shenzhen Shiguan Road and Bridge of HK$189,645,000 has been recognised during the year ended 31 December 2015 (note 6).

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: (Continued)

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

An aged analysis of receivables under service concession arrangements as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	2015	2014
	HK$'000	*HK$'000*
		(Restated)
Billed:		
Within one year	**29,568**	14,375
Unbilled	**1,761,197**	1,146,304
	1,790,765	1,160,679
Portion classified as current assets	**(135,675)**	(140,425)
Non-current portion	**1,655,090**	1,020,254

An aged analysis of the billed receivables under service concession arrangements that were neither individually nor collectively considered to be impaired is as follows:

	2015	2014
	HK$'000	*HK$'000*
Less than one year past due	**29,568**	14,375

18. OTHER INTANGIBLE ASSETS

	Notes	Patents HK$'000	Operating right HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2015					
At 1 January 2015:					
Cost		55,116	84,605	192,124	331,845
Accumulated amortisation		(851)	(2,355)	(91,661)	(94,867)
Net carrying amount		54,265	82,250	100,463	236,978
Net carrying amount:					
At 1 January 2015		54,265	82,250	100,463	236,978
Acquisition of a subsidiary	43	–	–	44,014	44,014
Additions		–	–	85,362	85,362
Transfer to assets of disposal groups classified as held for sale	29	–	–	(34,080)	(34,080)
Amortisation provided during the year	6	(2,094)	(3,444)	(32,042)	(37,580)
Exchange alignment		(735)	(2,890)	(8,225)	(11,850)
At 31 December 2015		51,436	75,916	155,492	282,844
At 31 December 2015:					
Cost		52,491	80,576	280,942	414,009
Accumulated amortisation		(1,055)	(4,660)	(125,450)	(131,165)
Net carrying amount		51,436	75,916	155,492	282,844

18. OTHER INTANGIBLE ASSETS *(Continued)*

	Notes	Patents HK$'000	Operating right HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2014					
At 1 January 2014:					
Cost		–	–	127,540	127,540
Accumulated amortisation		–	–	(63,420)	(63,420)
Net carrying amount		–	–	64,120	64,120
Net carrying amount:					
At 1 January 2014		–	–	64,120	64,120
Acquisition of a subsidiary	43	21,834	84,575	8,081	114,490
Additions		33,272	–	59,589	92,861
Transfer to assets of a disposal group classified as held for sale	29	–	–	(1,547)	(1,547)
Amortisation provided during the year	6	(851)	(2,355)	(28,241)	(31,447)
Exchange alignment		10	30	(1,539)	(1,499)
At 31 December 2014		54,265	82,250	100,463	236,978
At 31 December 2014:					
Cost		55,116	84,605	192,124	331,845
Accumulated amortisation		(851)	(2,355)	(91,661)	(94,867)
Net carrying amount		54,265	82,250	100,463	236,978

19. INTERESTS IN JOINT VENTURES

	Notes	2015 HK$'000	2014 HK$'000
Investments in joint ventures, included in non-current assets:			
Share of net assets	*(a)*	**192,651**	230,722
Due from joint ventures, included in current assets	*25*	**78,571**	77,829
Interests in joint ventures		**271,222**	308,551

Notes:

(a) The following tables illustrate the aggregate financial information of the Group's joint ventures that are not individually material:

	2015 HK$'000	2014 HK$'000
Share of the joint ventures' profit/(loss) and total comprehensive income/(loss) for the year	**(183)**	4,827
Share of net assets of the joint ventures recognised by the Group	**192,651**	230,722

20. INTERESTS IN ASSOCIATES

	Notes	2015 HK$'000	2014 HK$'000
Investments in associates, included in non-current assets:			
Share of net assets	*(b)*	**23,690,025**	23,704,276
Investment deposits		**219,552**	1,970,080
Due to associates	*(c)*	**–**	(680)
Goodwill on acquisition	*(b), (d)*	**7,689,822**	7,601,527
		31,599,399	33,275,203

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 shares held	Percentage of: Ownership interest attributable to the Group	Percentage of: Voting power	Percentage of: Profit sharing	Principal activities
中石油北京天然氣管道有限公司 ("PetroChina Beijing Gas")	PRC/ Mainland China	Issued capital	40	40	40	Provision of natural gas transmission services
BE Water[π]	Bermuda/ Hong Kong	Ordinary shares	43.84	43.84	43.84	Sewage treatment, reclaimed water treatment, water distribution and construction services
China Gas Holdings Limited ("China Gas")[Ω]	Bermuda/ Hong Kong	Ordinary shares	22.70	22.70	22.70	Distribution and sale of piped natural gas, sale of liquefied petroleum gas; and gas connection

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(a) *(Continued)*

π BE Water is a listed company 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 2015, based on its then published price quotation, amounted to approximately HK$20,766,285,000 (2014: HK$20,230,906,000).

During the year ended 31 December 2015, the Group's equity interest in BE Water was diluted from 43.92% to 43.84% upon the exercise of 15,524,000 share options by certain option holders of BE Water, resulting in the issue of 15,524,000 shares and a gain on deemed disposal of HK$2,390,000 was recognised by the Group.

In February 2014, the Group's equity interest in BE Water was diluted from 45.33% to 44.18% upon the issue of 219,634,000 ordinary shares by BE Water to certain investors and a gain on deemed disposal of HK$326,909,000 was recognised by the Group as a result of the transaction. In September 2014, the Group's equity interest in BE water was further diluted from 44.18% to 43.92% upon the issue of 33,224,000 ordinary shares by BE Water and a gain on deemed disposal of HK$51,934,000 was recognised by the Group as a result of the transaction.

Ω China Gas is a listed company 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 2015, based on its then published price quotation, amounted to approximately HK$12,598,073,000 (2014: HK$13,724,913,000).

During the year ended 31 December 2015, the Group's equity interest in China Gas increased from 22.44% to 22.7% upon the repurchase and cancellation of 37,174,000 ordinary shares by China Gas.

(b) Material associates disclosures

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

(i) PetroChina Beijing Gas, which is engaged in the provision of natural gas transmission services in the PRC;

(ii) BE Water, which is principally engaged in the construction of sewage and reclaimed water treatment and seawater desalination plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, the provision of sewage and reclaimed water treatment services, the distribution and sale of piped water, the provision of technical and consultancy services that are related to sewage treatment and construction services for comprehensive renovation projects and the licensing of technical know-how that is related to sewage treatment in the PRC and certain overseas countries; and

(iii) China Gas, which is principally engaged in the distribution and sale of piped natural gas, sale of liquefied petroleum gas, and gas connection in the PRC.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

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

	PetroChina Beijing Gas		BE Water		China Gas*	
	2015	2014	**2015**	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current assets	**651,815**	2,343,250	**18,153,002**	15,078,059	**13,300,586**	14,216,956
Non-current assets	**32,943,386**	36,084,446	**46,338,746**	36,562,779	**39,044,038**	34,664,541
Current liabilities	**(3,376,381)**	(9,134,416)	**(17,772,851)**	(11,418,826)	**(17,602,395)**	(11,227,146)
Non-current liabilities	**(2,124,314)**	(6,470,080)	**(26,428,482)**	(21,133,274)	**(13,758,503)**	(18,163,813)
Net assets	**28,094,506**	22,823,200	**20,290,415**	19,088,738	**20,983,726**	19,490,538
Less: Non-controlling interests	**(8,008)**	(11,089)	**(4,106,582)**	(3,304,290)	**(3,070,536)**	(2,796,364)
Net assets attributable to shareholders of the associates	**28,086,498**	22,812,111	**16,183,833**	15,784,448	**17,913,190**	16,694,174
Reconciliation to the Group's investments in the associates						
Proportion of the Group's ownership	**40%**	40%	**43.84%**	43.92%	**22.70%**	22.44%
Group's share of net assets of the associates, excluding goodwill recognised by the Group	**11,234,599**	9,124,845	**7,094,992**	6,932,268	**4,065,794**	3,746,561
Goodwill on acquisition recognised by the Group	**–**	–	**424,091**	424,091	**7,264,039**	7,175,373
Other reconciling items	**–**	–	**(35,288)**	(55,787)	**–**	–
Carrying amount of the investments	**11,234,599**	9,124,845	**7,483,795**	7,300,572	**11,329,833**	10,921,934

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

	PetroChina Beijing Gas		BE Water		China Gas*	
	2015	2014	**2015**	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other disclosures						
Revenues	**13,738,316**	12,378,933	**13,502,957**	8,925,942	**30,239,778**	31,134,794
Profit for the year	**6,830,564**	5,915,703	**2,769,793**	2,073,322	**3,456,489**	3,451,543
Profit for the year attributable to shareholders of the associates	**6,828,268**	5,912,068	**2,455,370**	1,794,413	**2,903,939**	2,848,836
Other comprehensive loss for the year	**–**	–	**(1,657,851)**	(205,966)	**(411,042)**	(48,542)
Other comprehensive loss for the year attributable to shareholders of the associates	**–**	–	**(1,404,594)**	(205,918)	**(330,587)**	(52,589)
Share of the associates' profit for the year	**2,731,309**	2,364,827	**1,077,087**	789,962	**656,286**	579,500
Share of the associates' other comprehensive loss for the year	**–**	–	**(615,733)**	(100,201)	**(75,153)**	(16,978)
Dividend received by the Group	**2,074,765**	1,997,010	**351,842**	206,184	**182,374**	134,296

* The financial statements of China Gas used in applying the equity method for the year ended 31 December 2015 are as of 30 September 2015 or for twelve months ended 30 September 2015 which is different from that of the Company because the statutory financial year-end date of this associate is 31 March. The financial statements for the twelve months ended 30 September 2015 are the most updated financial statements of China Gas available for equity accounting by the Group.

The following tables illustrate the aggregate financial information of the Group's associates that are not individually material:

	2015	2014
	HK$'000	*HK$'000*
Share of the associates' profit and total comprehensive income for the year	**243,430**	72,803
Share of net assets of the associates, excluding goodwill recognised by the Group	**1,329,928**	3,956,389
Goodwill on acquisition recognised by the Group	**1,692**	2,063

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(c) The amounts due to associates as at 31 December 2014 were unsecured, interest-free and had no fixed terms of repayment.

(d) The movements of the amount of the goodwill included in investments in associates during the year are as follows:

	2015	2014
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**7,601,527**	6,747,850
Acquisition of associates or additional interests in associates	**88,666**	853,729
Exchange realignment	**(371)**	(52)
At 31 December	**7,689,822**	7,601,527

21. AVAILABLE-FOR-SALE INVESTMENTS

	2015	2014
	HK$'000	*HK$'000*
Listed equity investments, at fair value	**584,721**	734,252
Unlisted equity investments, at cost	**439,194**	361,204
Impairment	**(11,358)**	(11,358)
	1,012,557	1,084,098

The unlisted equity investments of the Group are not stated at fair value but at cost because they do not have a quoted market price in an active market, the range of reasonable fair value estimates is significant for these investments and the probabilities of the various estimates cannot be reasonably assessed.

22. INVENTORIES

	2015 *HK$'000*	2014 *HK$'000*
Raw materials	**3,832,704**	4,460,535
Work in progress	**383,687**	446,871
Finished goods	**427,808**	485,962
	4,644,199	5,393,368

23. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	2015 *HK$'000*	2014 *HK$'000*
Amounts due from contract customers:		
Non-current portion	**388,771**	316,733
Current portion	**39,623**	39,895
	428,394	356,628
Amounts due to contract customers	**(329,589)**	(377,784)
	98,805	(21,156)
Contract costs incurred plus recognised profits less recognised losses to date	**868,550**	773,393
Less: Progress billings received and receivable	**(769,745)**	(794,549)
	98,805	(21,156)

24. TRADE AND BILLS RECEIVABLES

	2015 HK$'000	2014 HK$'000
Trade and bills receivables	**3,721,749**	5,578,369
Impairment *(note (c))*	**(177,294)**	(257,534)
	3,544,455	5,320,835

Notes:

(a) Included in the Group's trade and bills receivables as at 31 December 2015 was an aggregate amount of HK$95,612,000 (2014: HK$53,710,000) due from certain fellow subsidiaries of the Group 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 Group to its major customers.

(b) The various group companies have different credit policies, depending on the requirements of their markets and the businesses in which they operate. Aged analysis of trade and bills receivables are prepared and closely monitored in order to minimise any credit risk associated with the receivables.

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

	2015 HK$'000	2014 HK$'000
Billed:		
Within one year	**1,733,227**	2,589,316
One to two years	**46,493**	37,472
Two to three years	**13,489**	20,697
Over three years	**35,677**	26,772
	1,828,886	2,674,257
Unbilled	**1,715,569**	2,646,578
	3,544,455	5,320,835

24. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: (Continued)

(c) The movements in the Group's provision for impairment of trade and bills receivables during the year are as follows:

	Note	2015 HK$'000	2014 HK$'000
At 1 January		**257,534**	225,001
Provision/(reversal of provision) for impairment, net	6	**(23,765)**	39,202
Amount written off as uncollectible		**(46,728)**	(1,045)
Exchange realignment		**(9,747)**	(5,624)
At 31 December		**177,294**	257,534

The above provision for impairment of trade and bills receivables represented provision for individually impaired trade and bills receivables with an aggregate carrying amount of HK$194,190,000 (2014: HK$372,193,000). The individually impaired trade receivables relate to customers that were in financial difficulties or were in default or delinquency in principal payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the billed trade and bills receivables as at the end of the reporting period that are not considered to be impaired is as follows:

	2015 HK$'000	2014 HK$'000
Neither past due nor impaired	**1,653,237**	2,421,326
Less than one year past due	**68,952**	71,013
More than one year past due	**89,801**	67,259
	1,811,990	2,559,598

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that either have a good track record with the Group or are in negotiation with the Group over the amounts or terms of repayment. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and/or the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2015 HK$'000	2014 HK$'000
Prepayments	(a)	**3,636,967**	3,098,605
Deposits and other debtors	(a)	**1,771,971**	2,469,086
Due from holding companies	26	**1,449,844**	1,512,194
Due from fellow subsidiaries	26	**113,735**	150,899
Due from joint ventures	19, 26	**78,571**	77,829
Due from related parties	26	**131,277**	102,793
		7,182,365	7,411,406
Impairment	(b)	**(126,496)**	(114,821)
		7,055,869	7,296,585
Portion classified as current assets		**(3,835,300)**	(6,131,039)
Non-current portion		**3,220,569**	1,165,546

Notes:

(a) The Group's prepayments, deposits and other receivables as at 31 December 2015 include, inter alia, the following:

(i) certain deposits of HK$98,911,000 (2014: HK$278,959,000) in total paid for the construction or purchase of buildings, pipelines, equipment and machinery. The deposits were classified as non-current assets;

(ii) as at 31 December 2014, an amount of RMB1,100 million (equivalent to approximately HK$1,375 million) advanced to two local government authorities for an investment in a wastage treatment plant project in Haidian district in Beijing, the PRC. The amount are unsecured, bears interest at 8.5% per annum and RMB500 million (equivalent to approximately HK$625 million) and RMB600 million (equivalent to approximately HK$750 million) of which are repayable in June 2015 and April 2016, respectively. During the year ended 31 December 2015, the advance of RMB500 million was repaid by the local government authority and the advance of RMB600 remained outstanding as at 31 December 2015; and

(iii) as at 31 December 2015, an amount of RMB2,016 million (equivalent to approximately HK$2,400 million) was prepaid to a capital investment fund for investing in a company engaged in piped gas transportation. The amount was recognised as prepayment for acquisition of available-for-sale investments and was classified as non-current assets.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(b) The movements in provision for impairment during the year are as follows:

	Note	2015 HK$'000	2014 HK$'000
At 1 January		**114,821**	112,985
Impairment losses recognised	*6*	**16,614**	15,135
Amount written off as uncollectible		**–**	(3,680)
Transfer to assets of disposal groups classified as held for sale		**–**	(7,354)
Exchange realignment		**(4,939)**	(2,265)
At 31 December		**126,496**	114,821

The above provision for impairment of other debtors of the Group represented provision for individually impaired other debtors with an aggregate carrying amount of HK$147,544,000 (2014: HK$183,872,000).

26. DUE FROM/(TO) HOLDING COMPANIES/FELLOW SUBSIDIARIES/JOINT VENTURES/ RELATED PARTIES

The amounts due from/(to) holding companies, fellow subsidiaries, joint ventures and related parties are unsecured, interest-free and have no fixed terms of repayment, except for two loans with an aggregate amount of RMB40,000,000 (equivalent to HK$47,619,000) (2014: RMB40,000,000 (equivalent to HK$50,000,000)) due from a joint venture, which are unsecured, bears interest at 4.85% and 5.35% per annum and are fully repayable on 9 March 2016 (which has been extended for another one year) and 28 June 2016, respectively. Interest income of RMB2,040,000 (equivalent to HK$2,519,000) (2014: RMB2,400,000 (equivalent to HK$3,000,000)) was recognised in profit or loss in respect of the loan.

The balances with holding companies, fellow subsidiaries, joint ventures and related companies of the Group included in trade and bills receivables, deposits and other receivables, trade and bills payables, and other payables are disclosed in notes 24(a), 25, 40 and 41 to the financial statements, respectively.

27. RESTRICTED CASH AND PLEDGED DEPOSITS

	Notes	2015 HK$'000	2014 HK$'000
Restricted cash	(a)	**28,526**	29,926
Pledged deposits	(b)	**44,477**	28,809
Restricted cash and pledged deposits		**73,003**	58,735

Notes:

(a) Restricted cash of the Group mainly represented the proceeds of a government surcharge of HK$28,526,000 (2014: HK$29,926,000) collected by Beijing Gas, a wholly-owned subsidiary indirectly held the Company, from piped gas customers on behalf of 北京市發展和改革委員會 (the Beijing Municipal Commission of Development and Reform) (the "BMCDR") prior to 2003. 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)).

(b) A summary of pledged deposits of the Group is as follows:

(i) bank balances of HK$44,477,000 as at 31 December 2015 were pledged to secure certain bank loans (note 33(c)(iii)) granted to the Group.

(ii) bank balances of HK$28,809,000 as at 31 December 2014 were pledged to secure certain trade finance facilities (note 40) granted to the Group.

28. CASH AND CASH EQUIVALENTS

	2015	2014
	HK$'000	*HK$'000*
Cash and bank balances:		
Placed in banks	8,097,898	7,020,259
Placed in a financial institution *(note 48(a)(ix))*	1,345,140	3,237,711
Time deposits:		
Placed in banks	2,025,618	853,117
Placed in a financial institution *(note 48(a)(ix))*	2,298,151	155,354
	13,766,807	11,266,441
Less: Restricted cash and pledged deposits *(note 27)*	(73,003)	(58,735)
Cash and cash equivalents	13,693,804	11,207,706

Notes:

(a) At 31 December 2015, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$9.4 billion (2014: HK$6.6 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 earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

29. ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

The major classes of assets and liabilities classified as held for sale are as follows:

		2015				2014
	Notes	GSWG HK'000 (note (a))	Beijing Gas HK$'000 (note (b))	Others HK$'000 (note (c))	Total HK$'000	Total HK$'000 (Restated) (note (a))
Assets						
Property, plant and equipment	13	28,209	946,515	5,688	980,412	33,494
Prepaid land premium	15	8,081	–	–	8,081	8,884
Goodwill*	16	579,346	78,026	–	657,372	810,897
Operating concession*	17	317,687	–	–	317,687	333,204
Other intangible assets	18	–	32,960	1,120	34,080	1,547
Deferred tax assets	39	–	3,916	–	3,916	–
Investments in associates		734,174	480,609	2,025,316	3,240,099	748,039
Investments in joint ventures		81,074	–	12,431	93,505	92,644
Available-for-sale investment		2,857	–	–	2,857	3,000
Amounts due from contract customers		–	–	833	833	398
Inventories		1,861	74,928	7,947	84,736	24,356
Trade and bills receivables		33,802	41,747	64,907	140,456	103,004
Prepayments, deposits and other receivables		42,964	51,068	52,180	146,212	124,295
Income tax recoverable		–	35,629	–	35,629	–
Restricted cash and pledged deposits		–	16,726	220	16,946	–
Cash and bank balances		93,256	239,674	194,138	527,068	170,687
Assets of disposal groups classified as held for sale		1,923,311	2,001,798	2,364,780	6,289,889	2,454,449
Liabilities						
Bank and other borrowings		(263,922)	(130,952)	–	(394,874)	(280,680)
Amounts due to contract customers		–	–	(319)	(319)	(839)
Trade and bills payables		(14,586)	(97,015)	(99,208)	(210,809)	(115,444)
Other payables and accruals		(47,956)	(18,758)	(129,860)	(196,574)	(211,581)
Receipts in advance		(66)	(168,392)	–	(168,458)	–
Income tax payables		(1,582)	–	–	(1,582)	(264)
Liabilities directly associated with the assets of disposal groups classified as held for sale		(328,112)	(415,117)	(229,387)	(972,616)	(608,808)
Net assets of disposal groups held for sale		1,595,199	1,586,681	2,135,393	5,317,273	1,845,641

* The amounts of goodwill and operating concession as at 31 December 2014 had been restated since the initial accounting in respect of the acquisition of GSEI had been completed during the year, further details of which are set out in note (a) and note 43(b)(iv).

29. ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE *(Continued)*

Notes:

(a) As further detailed in note 43(b)(iv) to the financial statements, the Group acquired in aggregate 92.68% equity interests in Golden State Environmental Investment Corporation ("GSEI"), and the transaction was completed on 19 December 2014.

GSEI held certain sewage and water treatment projects in the PRC through a wholly-owned subsidiary, Golden State Water Group Corporation ("GSWG") and certain solid waste treatment projects through another wholly-owned subsidiary, namely Golden State Waste Management Corporation ("GSWM").

At 31 December 2014, the Group had committed a plan to dispose of the sewage and water treatment projects held by GSWG and had since been identifying potential buyers. Having considered that the equity interest in GSWG was available for immediate sale in its present condition and the sale was expected to be completed within one year, GSWG and its subsidiaries (together, the "GSWG Group") were classified as disposal groups held for sale as at 31 December 2014. The goodwill arose from the acquisition of GSEI attributable to the GSWG Group was also included in assets of disposal groups held for sale as at 31 December 2014.

On 9 June 2015, the Group entered into an acquisition agreement with the non-controlling shareholder of GSEI to acquire the remaining interest of 7.32% in GSEI at a cash consideration of US$38,700,000 (equivalent to approximately HK$301 million). The transaction was completed in June 2015 and GSEI became a wholly-owned subsidiary of the Group.

On 9 December 2015, the Group entered into a share purchase agreement with BE Water, an associate of the Group, pursuant to which the Group agreed to transfer the entire equity in GSWG to BE Water at a consideration of RMB1,508 million (equivalent to approximately HK$1,824 million), which shall be satisfied by BE Water allotting and issuing 300,001,592 ordinary shares to the Group. Further details were set out in the announcement of BE Water published on the website of the Hong Kong Stock Exchange on 9 December 2015.

The transaction is subject to the approval of independent shareholders of BE Water and therefore the terms of the disposal including the consideration shall be subject to finalisation and approval and the transaction is not yet completed as at the date of approval of these financial statements. In the opinion of the directors, since the Group remains committed to dispose of the sewage and water treatment projects of GSWG, the GSWG Group remained to be classified as disposal groups held for sale as at 31 December 2015.

The goodwill as disclosed in the financial statements for the year ended 31 December 2014 represented the then provisional amount estimated by the directors of the Company as the Group had not completed the fair value measurement of the identifiable net assets acquired and the initial accounting for the acquisition was incomplete. The related assessment was completed during the year ended 31 December 2015 and the final amount of goodwill arising from the acquisition was HK$808,123,000, as compared with the provisional goodwill of HK$1,114,303,000 initially recognised and the decrease of HK$306,180,000 was adjusted retrospectively in the current year's financial statements.

29. ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE *(Continued)*

Notes: (Continued)

(a) *(Continued)*

The recoverable amount of the sewage and water treatment operation has been determined by reference to a business valuation performed by Crowe Horwath (HK) Consulting & Valuation Limited, independent professionally qualified valuers, on a fair value less costs to sell calculation using cash flow projections which are based on financial forecast approved by senior management covering the service concession period and based on the assumption that the operation can generate cash flows within the respective concession periods of the relating sewage and water treatment projects. The discount rate applied to the cash flow projections is 10.2%, which is determined by reference to the average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 3% is used for the concession period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, impairment provision of HK$231,416,000 is considered necessary for the Group's goodwill as at 31 December 2015 (2014: Nil).

Key assumptions used in fair value less costs to sell calculation

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:

Sewage and water treatment operation

- Budgeted turnover

  The budgeted turnover is based on the projected sewage and water treatment volume, and the latest sewage and water treatment prices up to the date of the forecast.

- Budgeted gross margins

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

- Discount rates

  The discount rates used are before tax and reflect specific risks relating to the relevant unit.

- Business environment

  There have been no major changes in the existing political, legal and economic conditions in Mainland China.

29. ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE *(Continued)*

Notes: (Continued)

(b) On 26 November 2014, the Group entered into a conditional share purchase agreement with China Gas, pursuant to which the Group conditionally agreed to sell and China Gas conditionally agreed to purchase the entire equity interest in Beijing Gas Development Limited ("Beijing Gas Development", a wholly-owned subsidiary of the Group) at the initial consideration of RMB1,633 million (equivalent to approximately HK$2,064 million), which shall be satisfied by China Gas allotting and issuing 149,122,250 ordinary shares to the Group. The transaction was approved by an ordinary resolution at the special general meeting of shareholders of China Gas on 17 March 2015 and Beijing Gas Development was classified as a disposal group held for sale as at 31 December 2015. The transaction had not been completed as at the date of approval of these financial statements.

(c) On 28 August 2015, the Group entered into a disposal agreement with Beijing Enterprises Group, pursuant to which the Group agreed to sell and Beijing Enterprises Group agreed to purchase the entire equity interest in Keqi Coal-based Gas Company ("Keqi Gas", an 34% owned associate of the Group) at the cash consideration of RMB1,700 million (equivalent to approximately HK$2,024 million). The transaction was approved by the independent shareholders of the Company on 15 January 2016. Keqi Gas was classified as disposal group held for sale as at 31 December 2015. The transaction had not been completed as at the date of approval of these financial statements.

Since the consideration for the disposal of Keqi Gas is less than the carrying amount of investment in Keqi Gas of RMB1,762 million (equivalent to approximately HK$2,098 million), in the opinion of the directors, impairment provision of RMB62 million (equivalent to approximately HK$76 million) is considered necessary for the Group's investment in Keqi Gas as at 31 December 2015 (2014: Nil).

30. SHARE CAPITAL

Shares

	2015	2014
	HK$'000	*HK$'000*
Issued and fully paid:		
1,282,850,268 (2014: 1,284,350,268) ordinary shares	**30,401,883**	30,401,883

30. SHARE CAPITAL *(Continued)*

A summary of movements in the Company's share capital is as follows:

	Notes	Number of shares in issue	Share capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Total HK$'000
At 1 January 2014		1,270,193,509	127,019	29,607,291	238	29,734,548
Conversion of convertible bonds into ordinary shares	*(a)*	15,208,259	667,335	–	–	667,335
Shares repurchased	*(b)*	(1,051,500)	(105)	–	105	–
Transition to no-par value regime on 3 March 2014	*(c)*	–	29,607,634	(29,607,291)	(343)	–
At 31 December 2014 and 1 January 2015		1,284,350,268	30,401,883	–	–	30,401,883
Shares repurchased and cancelled	*(d)*	(1,500,000)	–	–	–	–
At 31 December 2015		1,282,850,268	30,401,883	–	–	30,401,883

Notes:

(a) During the year ended 31 December 2014, the Guaranteed Convertible Bonds (as defined in note 35(a) to the financial statements) with an aggregate principal amount of HK$661,560,000 were converted into 15,208,259 ordinary shares of the Company by certain bondholders. Details of the transaction are set out in note 35(a) to the financial statements.

(b) In January 2014, the Company repurchased a total of 1,051,500 ordinary shares of the Company on the Hong Kong Stock Exchange at a weighted average cost of HK$65.77 per share (the highest and lowest purchase prices per ordinary share were HK$66.30 and HK$63.68, respectively) and the total consideration paid amounted to approximately HK$69,162,000. These shares were subsequently cancelled by the Company during the year and the issued capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK$69,057,000 has been charged to the retained profits of the Company. Pursuant to section 49H of the predecessor Hong Kong Companies Ordinance (Cap. 32), an amount of HK$105,000 equivalent to the then par value of the shares cancelled was transferred from retained profits of the Company to the then capital redemption reserve.

(c) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, any amount standing to the credit of the share premium account and capital redemption reserve have become part of the Company's share capital.

(d) During the year ended 31 December 2015, the Company repurchased a total of 2,500,000 ordinary shares of the Company on the Hong Kong Stock Exchange at a weighted average cost of HK$46.24 per share and the total consideration paid amounted to approximately HK$115,594,000 (and transaction costs of HK$413,000), which was paid wholly out of retained profits in accordance with section 257 of the Hong Kong Companies Ordinance. 1,500,000 of the repurchased shares were cancelled by the Company during the year and the total amount paid for the repurchase of these shares of HK$69,384,000 has been charged to retained profits of the Company. The remaining 1,000,000 ordinary shares were held by the Company as at 31 December 2015 and the consideration of HK$46,623,000 has been credited to the "treasury shares" account.

31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which became effective on 17 October 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The purpose of the Scheme is to attract and retain the best quality personnel of the Group for the development of the Group's operations; to provide additional incentives to employees, officers and directors of the Group; and to promote the long term financial success of the Company by aligning the interests of option holders to those of shareholders. The directors of the Company may, at their discretion, invite employees (including executive directors) and non-executive directors of the Company and any of its subsidiaries, to take up share options to subscribe for ordinary shares of the Company at HK$1 per grant of share options.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the total number of ordinary shares of the Company in issue at any time. The total number of ordinary shares of the Company issued and to be issued upon exercise of share options (whether exercised or outstanding) in any 12-month period granted to any one person must not exceed 1% of the total number of ordinary shares of the Company in issue.

A share option granted under the Scheme is personal to the grantee and shall not be assignable or transferable.

The period during which a share option granted under the Scheme may be exercised will be determined by the directors at their discretion, save that no share option may be exercised later than 10 years after the grant date. No option may be granted more than 10 years after the date of approval of the Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's ordinary shares on the Hong Kong Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the Company's ordinary shares on the Hong Kong Stock Exchange on the five trading days immediately preceding the date of grant of the share options; and (iii) the nominal value of an ordinary share of the Company.

All share options granted under the Scheme in prior years were either exercised or forfeited in prior years. There was no grant of share options during the years ended 31 December 2015 and 2014 and there was no share option outstanding under the Scheme as at these dates.

The Scheme lapsed on 17 October 2015 and the Company currently does not have any effective share option scheme.

32. 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 redemption reserve represented the par value of ordinary shares of the Company which had been repurchased and cancelled in prior years. The reserve has become part of the Company's share capital since 3 March 2014 (note 30(c)).

(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 2015 were distributable in the form of cash dividends.

33. BANK AND OTHER BORROWINGS

	2015 ***HK$'000***	2014 *HK$'000*
Bank loans:		
Secured	**1,026,690**	1,648,348
Unsecured	**9,481,819**	17,064,646
	10,508,509	18,712,994
Other loans:		
Secured	**571,429**	4,466
Unsecured	**4,231,076**	4,533,849
	4,802,505	4,538,315
Total bank and other borrowings	**15,311,014**	23,251,309

33. BANK AND OTHER BORROWINGS *(Continued)*

	2015 *HK$'000*	2014 *HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year	**3,295,019**	13,420,862
In the second year	**296,309**	428,306
In the third to fifth years, inclusive	**6,327,741**	3,965,568
Beyond five years	**589,440**	898,258
	10,508,509	18,712,994
Other loans repayable:		
Within one year	**3,752,946**	4,270,573
In the second year	**117,384**	14,274
In the third to fifth years, inclusive	**430,145**	195,874
Beyond five years	**502,030**	57,594
	4,802,505	4,538,315
Total bank and other borrowings	**15,311,014**	23,251,309
Portion classified as current liabilities	**(7,047,965)**	(17,691,435)
Non-current portion	**8,263,049**	5,559,874

33. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

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

	2015	2014
	HK$'000	*HK$'000*
HK$	**8,851,917**	10,636,928
RMB	**4,169,555**	7,663,810
US$	**2,284,286**	4,943,995
Euro	**5,256**	6,576
	15,311,014	23,251,309

(b) Included in the Group's bank and other borrowings are:

(i) amortised cost of an interest-free loan of HK$138,006,000 (2014: HK$148,622,000) granted by a non-controlling equity holder of a subsidiary;

(ii) an aggregate amount of RMB3,740 million (equivalent to HK$4,452 million) (2014: RMB4,000 million (equivalent to HK$5,000 million)) due to an associate, which bears interest at rates ranging from HIBOR plus 1.05% to 5.32% per annum. Interest expenses of RMB23,050,000 (equivalent to HK$28,457,000) (2014: RMB11,802,000 (equivalent to HK$14,753,000)) were recognised in profit or loss during the year in respect of the loans (note 48(a)(ix)); and

(iii) certain bank and other loans, with an aggregate carrying amount of HK$212,893,000 (2014: HK$296,736,000), that principally came from proceeds of certain loans granted by three overseas governments and the Asian Development Bank to the PRC government and a number of loans from 北京市財政局 (the Finance Bureau of Beijing) to finance certain of the Group's pipeline construction projects. Except for an interest-free loan of HK$8,965,000 (2014: HK$9,392,000), these loans bear interest at rates ranging from 2% to 6.3% per annum.

33. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(c) The Group's secured bank loans were secured by:

(i) mortgages over certain solid waste treatment operation concession rights (comprising property, plant and equipment, operating concessions and receivables under service concession arrangements) for an aggregate net carrying amount of HK$1,163,953,000 (2014: HK$1,119,826,000) as at 31 December 2015, which are under the management of the Group pursuant to the relevant service concession agreements entered into with the grantors *(note 17(a)(i))*;

(ii) a mortgage over plant and machinery of the Group with a net carrying amount of HK$77,381,000 (2014: HK$81,250,000) as at 31 December 2015 *(note 13(a))*; and

(iii) the Group's bank balances of HK$44,477,000 (2014: Nil) as at 31 December 2015 *(note 27(b)(i))*.

(d) At 31 December 2015, the bank loans of the Group included a five-year HK$3 billion syndicated loan facility, a one-year USD250 million term loan facility, a five-year HK$4 billion term loan facility obtained by the Company in 2014, 2015 and 2015, respectively, which bear annual interest at HIBOR+1.7%, LIBOR+1.05% and HIBOR+1.5%, respectively, and are fully payable on 28 May 2019, 7 December 2016 and 27 November 2020, respectively.

At 31 December 2014, the bank loans of the Group included a five-year HK$3 billion syndicated loan obtained by the Company in 2010, which bore interest at HIBOR+0.85% per annum and the amount was repaid by the Group during the current year.

The loan agreements in respect of the loans outstanding as at 31 December 2015 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% of the beneficiary interest of the Company; and

(ii) if Beijing Enterprises Group ceases to be controlled and supervised by the Beijing Municipal Government.

Within 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.

34. GUARANTEED BONDS AND SENIOR NOTES

		2015				2014			
	Notes	**Principal at original currency *'million***	**Contractual interest rate *(%)* per annum**	**Maturity**	***HK$'000***	Principal at original currency *'million*	Contractual interest rate *(%)* per annum	Maturity	*HK$'000*
2011 First Senior Notes	*(a)*	**US$600**	**5%**	**2021**	**4,584,148**	US$600	5%	2021	4,622,498
2011 Second Senior Notes	*(a)*	**US$400**	**6.375%**	**2041**	**3,056,099**	US$400	6.375%	2041	3,081,666
2012 Senior Notes	*(a)*	**US$800**	**4.5%**	**2022**	**6,134,766**	US$800	4.5%	2022	6,175,134
2015 EUR Bonds	*(b)*	**EUR500**	**1.435%**	**2020**	**4,164,482**	–	–	–	–
2015 US Bonds	*(c)*	**US$200**	**4.99%**	**2040**	**1,505,097**	–	–	–	–
					19,444,592				13,879,298

Notes:

(a) On 25 April 2012 and 12 May 2011, Talent Yield Investments Limited and Mega Advance Investments Limited, wholly-owned subsidiaries of the Company, issued senior notes with aggregate principal amounts of US$800 million (the "2012 Senior Notes") and US$1 billion (the "2011 First Senior Notes" for US$600 million and the "2011 Second Senior Notes" for US$400 million), respectively, (collectively, the "Guaranteed Senior Notes") to certain institutional investors. Pursuant to the Guaranteed Senior Notes purchase agreements dated 19 April 2012 and 5 May 2011, respectively, of which, unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture, (i) the 2012 Senior Notes, bearing interest at the rate of 4.5% per annum, will mature on 25 April 2022; (ii) the 2011 First Senior Notes, bearing interest at the rate of 5% per annum, will mature on 12 May 2021; and (iii) the 2011 Second Senior Notes, bearing interest at the rate of 6.375% per annum, will mature on 12 May 2041.

(b) On 7 May 2015, Talent Yield Investment (Euro) Limited (a wholly-owned subsidiary of the Company) issued guaranteed bonds with aggregate principal amounts of EUR500,000,000 (the "2015 EUR Bonds") to certain institutional investors. Pursuant to the 2015 EUR Bonds purchase agreements dated 29 April 2015, the 2015 EUR Bonds, unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture, bear interest at the rate of 1.435% per annum and will mature on 7 May 2020.

(c) On 17 December 2015, Top Luxury Investment Limited (a wholly-owned subsidiary of the Company) issued guaranteed bonds with aggregate principal amounts of US$200,000,000 (the "2015 US Bonds") to certain institutional investors. Pursuant to the 2015 US Bonds purchase agreements dated 1 December 2015, the 2015 US Bonds, unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture, bear interest at the rate of 4.99% per annum and will mature on 17 December 2040.

The above bonds and senior notes are all guaranteed by the Company.

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

35. CONVERTIBLE BONDS

Summary information of the Group's convertible bonds is set out as follows:

	Guaranteed Convertible Bonds *(note (a))*	**Yanjing Brewery Convertible Bonds** *(note (b))*
Issuance date	2 June 2009	15 October 2010
Maturity date	1 June 2014	14 October 2015
Original principal amount:		
HK$'000	2,175,000	N/A
RMB'000	N/A	429,804
Coupon rate (per annum)	2.25%	0.5% – 1.4%
Conversion price per ordinary share of:		
– The Company (HK$)	43.5	N/A
– Yanjing Brewery (RMB)	N/A	7.58

35. CONVERTIBLE BONDS *(Continued)*

For accounting purposes, each batch of these convertible bonds is bifurcated into a liability component and an equity component or a derivative component, as appropriate, as further described in the accounting policy for "Convertible bonds" set out in note 2.4 to the financial statements. The following tables summarise the movements in the principal amounts, the liability component and derivative component of the Group's convertible bonds during the year:

Principal amount outstanding	*Note*	**Guaranteed Convertible Bonds** *HK$'000* *(note (a))*	**Yanjing Brewery Convertible Bonds** *HK$'000* *(note (b))*	**Total** *HK$'000*
At 1 January 2014		673,270	96,636	769,906
Conversion to ordinary shares of the Company	*30(a)*	(661,560)	–	(661,560)
Conversion to ordinary shares of Yanjing Brewery		–	(10,828)	(10,828)
Redemption of convertible bonds		(11,710)	–	(11,710)
Exchange realignment		–	(2,414)	(2,414)
At 31 December 2014 and 1 January 2015		–	83,394	83,394
Conversion to ordinary shares of Yanjing Brewery		–	(80,216)	(80,216)
Redemption of convertible bonds		–	(3,178)	(3,178)
At 31 December 2015		–	–	–

35. CONVERTIBLE BONDS *(Continued)*

Liability component	*Notes*	Guaranteed Convertible Bonds *HK$'000* *(note (a))*	Yanjing Brewery Convertible Bonds *HK$'000* *(note (b))*	Total *HK$'000*
At 1 January 2014		673,054	93,501	766,555
Interest expense	*7*	6,118	918	7,036
Imputed interest expense	*7*	–	4,235	4,235
Interest paid		(127)	(918)	(1,045)
Conversion to ordinary shares of the Company	*30(a)*	(667,335)	–	(667,335)
Conversion to ordinary shares of Yanjing Brewery		–	(10,843)	(10,843)
Redemption of convertible bonds		(11,710)	–	(11,710)
Exchange realignment		–	(2,337)	(2,337)
At 31 December 2014 and 1 January 2015		–	84,556	84,556
Interest expense	*7*	–	438	438
Interest paid		–	(444)	(444)
Conversion to ordinary shares of Yanjing Brewery		–	(80,216)	(80,216)
Redemption of convertible bonds		–	(3,178)	(3,178)
Exchange realignment		–	(1,156)	(1,156)
At 31 December 2015		–	–	–

35. CONVERTIBLE BONDS *(Continued)*

Derivative component	**Guaranteed Convertible Bonds** *HK$'000* *(note (a))*	**Yanjing Brewery Convertible Bonds** *HK$'000* *(note (b))*	**Total** *HK$'000*
At 1 January 2014	–	8,851	8,851
Conversion to ordinary shares of Yanjing Brewery	–	(991)	(991)
Exchange realignment	–	(221)	(221)
At 31 December 2014 and 1 January 2015	–	7,639	7,639
Conversion to ordinary shares of Yanjing Brewery	–	(7,347)	(7,347)
Exchange realignment	–	(292)	(292)
At 31 December 2015	–	–	–

Notes:

(a) On 2 June 2009, Power Regal Group Limited ("Power Regal", a wholly-owned subsidiary of the Company) issued convertible bonds with an aggregate principal amount of HK$2.175 billion (the "Guaranteed Convertible Bonds") to certain institutional investors. Pursuant to the convertible bond subscription agreement dated 25 April 2009, the convertible bonds were guaranteed by the Company, bore interest at the rate of 2.25% per annum and were convertible into ordinary shares of the Company at an initial conversion price of HK$43.5 per share of the Company, subject to adjustments in certain events. During the year ended 31 December 2014, certain of the Guaranteed Convertible Bonds with an aggregate principal amount of HK$661,560,000 were converted into 15,208,259 ordinary shares of the Company by certain bondholders and the remaining principal amount of HK$11,710,000 was redeemed.

The fair value of the liability component of the Guaranteed Convertible Bonds was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The equity component of the Guaranteed Convertible Bonds was not significant to the Group and, accordingly, the whole amount of the Guaranteed Convertible Bonds, net of transaction costs, was accounted for as a financial liability of the Group.

35. CONVERTIBLE BONDS *(Continued)*

Notes: (Continued)

(b) On 15 October 2010, Yanjing Brewery, a subsidiary indirectly held by the Company, issued convertible bonds with an aggregate principal amount of RMB1.13 billion (the "Yanjing Brewery Convertible Bonds") to the then existing shareholders of Yanjing Brewery. The Yanjing Brewery Convertible Bonds are convertible, at the option of the bondholders, into fully-paid ordinary shares of Yanjing Brewery at an initial conversion price of RMB21.86 per share of Yanjing Brewery and the conversion period is from 15 October 2010 to 14 October 2015, both dates inclusive. The Yanjing Brewery Convertible Bonds bear interest at 0.5%, 0.7%, 0.9%, 1.1% and 1.4% per annum in each of the annual convertible periods. Further details of the Yanjing Brewery Convertible Bonds were set out in the Company's announcement published on the Chinese website of the Hong Kong Stock Exchange on 12 October 2010.

On 26 March 2012 and 7 June 2012, the conversion price of the Yanjing Brewery Convertible Bonds was adjusted from RMB21.86 to RMB15.37 and from RMB15.37 to RMB7.58, respectively, further details of which were set out in the announcements of Yanjing Brewery published on the website of the Shenzhen Stock Exchange on 24 March 2012 and 31 May 2012, respectively.

Based on the terms of the Yanjing Brewery Convertible Bonds, the conversion option of the Yanjing Brewery Convertible Bonds is classified as a derivative financial instrument (a financial liability at fair value through profit or loss) in the financial statements. The derivative component of the Yanjing Brewery Convertible Bonds is stated in the consolidated statement of financial position at fair value with any changes in fair value recognised in profit or loss.

The fair values of the derivative component of the Yanjing Brewery Convertible Bonds as at the date of issue were determined by reference to valuations performed by an independent professionally qualified valuer using the Binomial Option Pricing Model in prior years. In the opinion of the directors, since the fair value movement of the Yanjing Brewery Convertible Bonds and the related financial impact on the Group's financial statements are expected to be insignificant during the year ended 31 December 2014, no external valuation was performed on the fair value of the Yanjing Brewery Convertible Bonds as at 31 December 2014.

During the year ended 31 December 2015, all of the remaining Yanjing Brewery Convertible Bonds with an aggregate principal amount of HK$80,216,000 (2014: HK$10,828,000) were converted into 8,887,914 (2014: 1,199,469) ordinary shares of Yanjing Brewery by certain bondholders and the relevant principal amount of HK$3,178,000 was redeemed.

36. DEFINED BENEFIT PLANS

Certain employees of Beijing Gas, an indirectly-held wholly-owned subsidiary of the Company, can enjoy retirement benefits after retirement such as supplemental medical reimbursement, allowance and beneficiary benefits pursuant to certain of its defined benefit plans. The plans are exposed to interest rate risk and the risk of changes in the life expectancy for the employees.

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

	Supplemental post-retirement medical reimbursement plan *HK$'000*	Supplemental post-retirement allowance and beneficiary benefit plans *HK$'000*	Internal retirement benefit plan *HK$'000*	Total *HK$'000*
Year ended 31 December 2015				
Current service cost	**30,549**	**3,596**	**–**	**34,145**
Past service cost	**8,605**	**944**	**–**	**9,549**
Interest cost	**22,635**	**5,690**	**143**	**28,468**
Net benefit expense	**61,789**	**10,230**	**143**	**72,162**
Year ended 31 December 2014				
Current service cost	20,673	3,178	–	23,851
Past service cost	400	61	36	497
Interest cost	21,019	6,396	289	27,704
Net benefit expense	42,092	9,635	325	52,052

36. DEFINED BENEFIT PLANS *(Continued)*

(b) Present value of the defined benefit obligations

2015

	Supplemental post-retirement medical reimbursement plan *HK$'000*	Supplemental post-retirement allowance and beneficiary benefit plans *HK$'000*	Internal retirement benefit plan *HK$'000*	Total *HK$'000*
At 1 January 2015	540,612	137,470	4,441	682,523
Net benefit expenses recognised in profit or loss	61,789	10,230	143	72,162
Benefits paid	(4,482)	(3,753)	(1,870)	(10,105)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	96,465	36,419	(308)	132,576
Exchange realignment	(31,234)	(8,078)	(140)	(39,452)
At 31 December 2015	663,150	172,288	2,266	837,704
Portion classified as current liabilities included in other payables and accruals *(note 41)*				(9,744)
Non-current portion				827,960

36. DEFINED BENEFIT PLANS *(Continued)*

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

2014

	Supplemental post-retirement medical reimbursement plan *HK$'000*	Supplemental post-retirement allowance and beneficiary benefit plans *HK$'000*	Internal retirement benefit plan *HK$'000*	Total *HK$'000*
At 1 January 2014	411,850	126,832	7,023	545,705
Net benefit expenses recognised in profit or loss	42,091	9,635	326	52,052
Benefits paid	(3,961)	(3,816)	(2,088)	(9,865)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	100,928	7,990	(645)	108,273
Exchange realignment	(10,296)	(3,171)	(175)	(13,642)
At 31 December 2014	540,612	137,470	4,441	682,523
Portion classified as current liabilities included in other payables and accruals *(note 41)*				(9,864)
Non-current portion				672,659

36. DEFINED BENEFIT PLANS *(Continued)*

(c) Principal assumptions

The most recent actuarial valuation of the present value of the defined benefit obligations was carried out at 31 December 2015 by Towers Watson, using the projected unit credit method. The material actuarial assumptions used in determining the defined benefit obligations for the Group's plans are as follows:

	2015	2014
Discount rate	**3.75%**	4.25%
Healthcare cost inflation rate	**8.00%**	8.00%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2015 and 2014 is shown below:

	Increase in rate	**Increase/ (decrease) in net defined benefit obligations**	**Decrease in rate**	**Increase/ (decrease) in net defined benefit obligations**
	%	*HK$'000*	*%*	*HK$'000*
2015				
Discount rate	**0.25**	**(53,004)**	**0.25**	**57,935**
Healthcare cost inflation rate	**1.00**	**218,596**	**1.00**	**(156,300)**
2014				
Discount rate	0.25	(41,811)	0.25	45,588
Healthcare cost inflation rate	1.00	169,274	1.00	(124,325)

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

At 31 December 2015, the expected contribution to be made within the next 12 months out of the defined benefit obligations was HK$9,744,000 (2014: HK$9,864,000).

37. PROVISION FOR MAJOR OVERHAULS

Pursuant to the service concession arrangements on the Group's toll road operation and solid waste treatment operations, 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. These contractual obligations to maintain or restore the infrastructures, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs are collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis and revised where appropriate.

The movement in provision for major overhauls of the infrastructures during the year is as follows:

	2015	2014
	HK$'000	*HK$'000*
At 1 January	**30,544**	30,544
Exchange alignment	**(2,181)**	–
At 31 December	**28,363**	30,544

No provision for major overhauls for the Group's solid waste treatment operations was recognised by the Group as the financial impact is insignificant to the consolidated financial statements.

38. OTHER NON-CURRENT LIABILITIES

		2015	2014
	Note	***HK$'000***	*HK$'000*
Other liabilities – non-current portion	*41*	**30,322**	40,082
Deferred income		**731,624**	393,365
		761,946	433,447

Note: Deferred income of the Group mainly represented subsidies received from third parties and government authorities in respect of certain projects for the construction of the Group's gas pipelines in Beijing for the delivery of natural gas. 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:

	2015 *HK$'000*	2014 *HK$'000* (Restated)
Deferred tax assets	**779,713**	678,460
Deferred tax liabilities	**(480,481)**	(384,350)
	299,232	294,110

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

		Attributable to											
	Notes	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Depreciation allowances in excess of related depreciation *HK$'000*	Other temporary differences related to property, plant and equipment *HK$'000*	Transfer of assets from customers *HK$'000*	Fair value adjustments on available-for-sale investments *HK$'000*	Impairment provision and accrued expenses *HK$'000*	Provision for bonus and defined benefit plans *HK$'000*	Provision for major overhauls *HK$'000*	Revaluation of operating concession *HK$'000*	Losses available for offsetting future taxable profits *HK$'000* *(note (a))*	Withholding tax *HK$'000* *(note (b))*	Net deferred tax assets/ (liabilities) *HK$'000*
At 1 January 2014		66,779	(1,974)	32,069	(81,751)	(1,392)	310,584	138,188	9,133	–	17,983	(122,025)	367,594
Deferred tax credited/(charged) to profit or loss during the year	*10*	1,649	(176)	–	(28,383)	–	53,981	7,358	–	–	–	–	34,429
Deferred tax credited/(charged) to other comprehensive income during the year		–	–	–	–	(16,892)	–	27,069	–	–	–	–	10,177
Acquisition of subsidiaries*	*43*	(40,526)	–	–	–	–	–	–	–	(64,909)	–	–	(105,435)
Exchange realignment		(1,212)	49	(802)	2,044	50	(9,030)	(3,455)	(51)	–	(248)	–	(12,655)
At 31 December 2014, as restated		26,690	(2,101)	31,267	(108,090)	(18,234)	355,535	169,160	9,082	(64,909)	17,735	(122,025)	294,110

* The amount for the year ended 31 December 2014 has been restated since the initial accounting in respect of the acquisition of GSEI has been completed during the year, details of which are set out in note 43(b)(iv) to the financial statements.

39. DEFERRED TAX *(Continued)*

		Attributable to											
	Notes	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Depreciation allowances in excess of related depreciation *HK$'000*	Other temporary differences related to property, plant and equipment *HK$'000*	Transfer of assets from customers *HK$'000*	Fair value adjustments on available-for-sale investments *HK$'000*	Impairment provision and accrued expenses *HK$'000*	Provision for bonus and defined benefit plans *HK$'000*	Provision for major overhauls *HK$'000*	Revaluation of investment properties and operating concession *HK$'000*	Losses available for offsetting future taxable profits *HK$'000* *(note (a))*	Withholding tax *HK$'000* *(note (b))*	Net deferred tax assets/ (liabilities) *HK$'000*
At 1 January 2015		26,690	(2,101)	31,267	(108,090)	(18,234)	355,535	169,160	9,082	(64,909)	17,735	(122,025)	294,110
Deferred tax credited/(charged) to profit or loss during the year	*10*	(7,541)	(174)	–	11,853	(592)	75,735	32,066	–	(115,692)	–	–	(4,345)
Deferred tax credited to other comprehensive income during the year		–	–	–	–	5,155	–	33,144	–	–	–	–	38,299
Transfer to assets of disposal groups classified as held for sale	*29*	–	–	–	–	–	(3,916)	–	–	–	–	–	(3,916)
Acquisition of subsidiaries	*43*	606	–	–	–	–	–	–	–	–	–	–	606
Exchange realignment		(7,521)	106	(1,489)	4,719	54	(16,963)	(10,384)	(1,446)	8,295	(893)	–	(25,522)
At 31 December 2015		12,234	(2,169)	29,778	(91,518)	(13,617)	410,391	223,986	7,636	(172,306)	16,842	(122,025)	299,232

Notes:

(a) At 31 December 2015, deferred tax assets have not been recognised in respect of unused tax losses of HK$3,712,817,000 (2014: losses of HK$3,527,014,000) 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$3,691,445,000 (2014: HK$3,505,642,000) will expire in one to five years.

(b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%, depending on the jurisdiction of the respective investment enterprises. The Group is therefore liable to withholding taxes on dividends declared by those subsidiaries, joint ventures and associates established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax has not been fully recognised for withholding taxes that would be payable on certain portions of the unremitted earnings that are subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China. 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, joint ventures and associates in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$11,263,281,000 (2014: HK$10,700,006,000) as at 31 December 2015.

(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 aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2015	2014
	HK$'000	*HK$'000*
Billed:		
Within one year	**2,022,042**	1,820,704
One to two years	**304,034**	236,043
Two to three years	**140,151**	169,653
Over three years	**171,715**	12,003
	2,637,942	2,238,403
Unbilled:	**1,003,012**	–
	3,640,954	2,238,403

Included in the Group's trade and bills payables as at 31 December 2015 are amounts of HK$48,630,000 (2014: HK$51,061,000) due to related companies, 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 companies to their major customers.

The Group's bills payable as at 31 December 2014 are secured by a pledge over certain of the Group's bank balances with an aggregate amount of HK$28,809,000 *(note 27(b)(ii))*.

41. OTHER PAYABLES AND ACCRUALS

	Notes	2015 HK$'000	2014 HK$'000
Accruals		**480,468**	116,810
Defined benefit plans – current portion	36(b)	**9,744**	9,864
Other liabilities		**6,266,486**	5,360,149
Due to a holding company	26	**1,261,656**	1,880,364
Due to related parties	26	**268,921**	329,350
		8,287,275	7,696,537
Portion classified as current liabilities		**(8,256,953)**	(7,656,455)
Non-current portion	38	**30,322**	40,082

The Group's other liabilities as at 31 December 2015 included, inter alia, the following:

(a) an amount of HK$28,526,000 (2014: HK$29,926,000) 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 27(a) to the financial statements; and

(b) construction project costs of HK$106,717,000 (2014: HK$121,848,000) 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.

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

Details of Yanjing Investment (an 80% owned subsidiary which holds 57.57% equity interests in Yanjing Brewery) and its subsidiaries (collectively the "Yanjing Investment Group") that have material non-controlling interests are set out below:

	2015	2014
	HK$'000	*HK$'000*
Profit for the year allocated to non-controlling interests	**278,334**	562,398
Dividends paid to non-controlling interests of the Yanjing Investment Group	**281,730**	292,269
Accumulated balances of non-controlling interests at the reporting dates	**8,888,701**	9,234,570

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

	2015	2014
	HK$'000	*HK$'000*
Revenue	**14,069,445**	15,150,989
Total expenses	**(13,682,631)**	(14,200,358)
Profit for the year	**386,814**	950,631
Total comprehensive income for the year	**77,242**	951,770
Current assets	**7,467,760**	8,268,771
Non-current assets	**14,834,581**	16,040,492
Current liabilities	**(9,298,818)**	(8,393,851)
Non-current liabilities	**(370,818)**	(254,448)
Net cash flows from operating activities	**1,725,629**	2,729,945
Net cash flows used in investing activities	**(789,360)**	(2,307,095)
Net cash flows used in financing activities	**(1,148,847)**	(145,506)
Net increase/(decrease) in cash and cash equivalents	**(212,578)**	277,344

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

43. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year ended 31 December 2015 as at their respective dates of acquisition were as follows:

		2015	2014		
		Total	GSEI	Others	Total
	Notes	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
			(Restated)		(Restated)
		(note (a))	*(note (b)(iv))*	*(notes (b)(i), (ii) and (iii))*	
Net assets acquired:					
Property, plant and equipment	*13*	**111,805**	624,723	531,360	1,156,083
Prepaid land premiums	*15*	**–**	60,303	47,114	107,417
Operating concession	*17*	**–**	776,908	397,395	1,174,303
Receivables under service concession arrangements		**–**	891,750	–	891,750
Other intangible assets	*18*	**44,014**	815	113,675	114,490
Investments in associates		**–**	745,087	–	745,087
Available-for-sale investments		**–**	3,000	–	3,000
Deferred tax assets	*39*	**606**	–	–	–
Inventories		**5,092**	10,052	5,926	15,978
Trade and bills receivables		**3,835**	64,323	56,682	121,005
Prepayments, deposits and other receivables		**64,879**	218,848	43,892	262,740
Income tax recoverable		**1,677**	–	21,018	21,018
Cash and cash equivalents		**35,882**	349,535	56,362	405,897
Bank and other borrowings		**–**	(1,315,092)	–	(1,315,092)
Other non-current liabilities		**–**	(40,112)	(39,873)	(79,985)
Deferred tax liabilities	*39*	**–**	(64,909)	(40,526)	(105,435)
Trade and bills payables		**(12,143)**	(62,328)	(11,030)	(73,358)
Other payables and accruals		**(125,828)**	(93,455)	(242,870)	(336,325)
Total identifiable net assets at fair value		**129,819**	2,169,448	939,125	3,108,573
Non-controlling interests		**(90,524)**	(241,087)	–	(241,087)
		39,295	1,928,361	939,125	2,867,486
Goodwill on acquisition	*16*	**143,171**	1,871,287	198,619	2,069,906
Consideration transferred		**182,466**	3,799,648	1,137,744	4,937,392

43. BUSINESS COMBINATIONS *(Continued)*

	2015		2014	
	Total	GSEI	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note (a))	*(note (b)(iv))*	*(notes (b)(i), (ii) and (iii))*	
Satisfied by:				
Cash	**100,000**	3,799,648	318,824	4,118,472
Issue of new ordinary shares by Beijing Development	**–**	–	818,920	818,920
Reclassification from interest in a joint venture to interest in a subsidiary	**82,466**	–	–	–
	182,466	3,799,648	1,137,744	4,937,392
Revenue for the year since acquisition	**49,075**	–	21,540	21,540
Profit/(loss) for the year since acquisition	**17,561**	–	(7,147)	(7,147)

The Group has elected to measure the non-controlling interests in the subsidiaries acquired at the non-controlling interests' proportionate share of the identifiable net assets of the subsidiaries acquired.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2015		2014	
	Total	GSEI	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note (a))	*(note (b)(iv))*	*(notes (b)(i), (ii) and (iii))*	
Cash and cash equivalents acquired	**35,882**	349,535	56,362	405,897
Cash consideration	**(100,000)**	(3,799,648)	(318,824)	(4,118,472)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(64,118)**	(3,450,113)	(262,462)	(3,712,575)

43. BUSINESS COMBINATIONS *(Continued)*

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK$5,985,560,000 (2014: HK$5,393,483,000) and the Group's revenue (comprising turnover and other income and gains, net) would have been HK$60,380,123,000 (2014: HK$48,378,256,000).

Notes:

(a) Business combinations during the year ended 31 December 2015 mainly included the following transactions:

(i) In January 2015, the Group acquired a 70% equity interest in 北控安耐得環保科技發展常州有限公司 ("Changzhou") from an independent third party at a cash consideration of RMB84,000,000 (equivalent to HK$100,000,000). Changzhou is principally engaged in the hazardous and industrial solid waste treatment operation in Jiangsu Province, the PRC; and

(ii) In December 2015, Beijing Gas Group Company Limited, a wholly-owned subsidiary of the Group, reached a consent with another shareholder of 北京北燃港華燃氣有限公司 ("Ganghua"), a then 50% joint venture of the Group, for the entrustment of its power in the board of directors of Ganghua to the Group. Upon the execution of the new articles of association, the Group is entitled to control the financing and operating policies of Ganghua. Accordingly, Ganghua became a 50% owned subsidiary of the Group. Ganghua is principally engaged in the provision of pipeline gas in Beijing City, the PRC.

(b) Business combinations during the year ended 31 December 2014 mainly included the following transactions:

(i) In January 2014, the Group acquired the entire equity interest in 鶴崗聚源煤層氣有限責任公司 ("Hegang") from an independent third party at a cash consideration of RMB38,755,000 (equivalent to HK$48,444,000). Hegang is principally engaged in the provision of LNG in Heilongjiang, the PRC;

(ii) In April 2014, Beijing Development, a then 50.36% indirectly-held subsidiary of the Company, acquired the entire equity interests in and the shareholders' loans of KCS Taian Investments Company Limited ("KCS Taian") and KCS Changde Investments Company Limited ("KCS Changde") from an independent third party at an aggregate consideration of RMB520,000,000. The consideration was satisfied by RMB86,790,000 (equivalent to HK$107,880,000) in cash and RMB433,210,000 by the issue of 347,000,000 ordinary shares of Beijing Development at an issue price of HK$1.60 per share (fair value of which on the issue date was HK$2.36 per share). KCS Taian and KCS Changde are principally engaged in the provision of solid waste treatment business in Shandong and Hunan, the PRC, respectively;

(iii) In April 2014, the Group acquired the entire equity interests in and the shareholders' loans of KCS Siping Investments Company Limited ("KCS Siping") from an independent third party at a cash consideration of RMB130,000,000 (equivalent to HK$162,500,000). KCS Siping is principally engaged in the provision of solid waste treatment business in Jilin, the PRC; and

(iv) In December 2014, the Group acquired in aggregate 92.68% equity interests in GSEI from two independent third parties at an aggregate cash consideration of USD490,277,000 (equivalent to HK$3,804,551,000). GSEI is principally engaged in the solid waste treatment operations and sewage and water supply operations in Beijing and several other provinces in the PRC.

The goodwill on acquisition of the equity interests of GSEI as disclosed in the financial statements for the year ended 31 December 2014 represented the then provision amount estimated by the directors of the Company as the Group had not completed the fair value measurement of the identifiable net assets of GSEI and the initial accounting for the acquisition was incomplete.

43. BUSINESS COMBINATIONS *(Continued)*

Notes: (Continued)

(b) *(Continued)*

(iv) *(Continued)*

The initial accounting was completed during the year ended 31 December 2015 and the acquisition date fair value of operating concessions and receivables under service concession arrangements were HK$776,908,000 and HK$891,750,000 respectively, representing increases of HK$321,346,000 and HK$27,657,000 over the provisional amounts respectively. The 2014 comparative information was restated to reflect the adjustment to the provisional amounts. As a result of the aforesaid changes in fair value, deferred tax liabilities had been increased by HK$64,909,000 and non-controlling interests had been increased by HK$44,989,000. The corresponding goodwill amount had been decreased by HK$239,105,000, resulting in HK$1,871,287,000 of total goodwill arising on the acquisition. Assets of disposal groups classified as held for sale were also restated to reflect the adjustment to the provisional amounts of goodwill and operating concession accordingly *(note 29(a))*.

44. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Apart from the transactions as detailed in notes 20, 35 and 43 to the financial statements, the Group had no other major non-cash transactions of investing and financing activities during the years ended 31 December 2015 and 2014.

45. CONTINGENT LIABILITIES

As at the end of the reporting period, the Group had no significant contingent liabilities not provided for in the financial statements.

46. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for original terms ranging from 1 to 2 years. The terms of the leases generally require the tenants to pay security deposits.

As at the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2015 **HK$'000**	2014 HK$'000
Within one year	**2,949**	2,710
In the second to fifth years, inclusive	**266**	–
	3,215	2,710

46. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group leases certain of its land, office properties and staff quarters under operating lease arrangements, with leases negotiated with original terms ranging from 1 to 39 years.

As at the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015	2014
	HK$'000	*HK$'000*
Within one year	**71,602**	75,686
In the second to fifth years, inclusive	**128,305**	124,873
After five years	**556,277**	619,103
	756,184	819,662

47. CAPITAL COMMITMENTS

As at the end of the reporting period, the Group had the following capital commitments:

	2015	2014
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Buildings	**269,373**	166,013
Gas pipelines and plant and machinery	**1,105,112**	796,333
New service concession arrangements on a BOO basis	**–**	54,235
New service concession arrangements on a BOT basis	**236,217**	306,658
	1,610,702	1,323,239

48. RELATED PARTY DISCLOSURES

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

Name of related party	Nature of transaction	Notes	2015 HK$'000	2014 HK$'000
Non-controlling equity holders of subsidiaries and their associates:				
Yanjing Beer Group and its associates	Purchase of bottle labels[γ]	*(i)*	**100,933**	125,731
	Purchase of bottle caps[γ]	*(i)*	**77,851**	92,986
	Canning service fees paid[γ]	*(ii)*	**41,079**	36,506
	Comprehensive support service fees paid[γ]	*(iii)*	**19,191**	19,431
	Land rent expenses[γ]	*(iv)*	**2,283**	2,311
	Trademark licensing fees paid[γ]	*(v)*	**68,312**	74,505
	Less: refund for advertising subsidies[γ]	*(v)*	**(5,348)**	(4,271)
Fellow subsidiaries:				
Beiran Enterprises and its subsidiaries	Sale of gas[#]	*(vi)*	**37,351**	34,380
	Engineering service income[#]	*(vii)*	**14,675**	22,173
	Comprehensive service income[#]	*(vii)*	**12,175**	25,063
	Sale of goods[#]	*(x)*	**91,753**	152,988
	Engineering service expenses[#]	*(vii)*	**101,907**	89,438
	Comprehensive service expenses[#]	*(vii)*	**45,126**	42,204
	Building rental expenses[#]	*(viii)*	**100,442**	78,301
	Purchase of goods[#]	*(viii)*	**157,926**	142,708
Associates:				
Beijing Enterprises Group Finance Co. Ltd.	Interest expense	*(ix)*	**28,457**	14,753
	Interest income[#]	*(ix)*	**14,473**	–

γ *These related party transactions also constitute continuing connected transactions that are exempted from the reporting, announcement and independent shareholders' approval requirements as defined in Chapter 14A of the Listing Rules.*

\# *These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.*

48. 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 rent expenses were charged at a mutually-agreed amount of RMB1,849,000 (equivalent to HK$2,283,000) (2014: RMB1,849,000 (equivalent to HK$2,311,000)) per annum.

(v) The trademark licensing fees paid were for the use of the "Yanjing" trademark and were determined based on 0.94% of the annual sales of beer and mineral water products made by Yanjing Brewery and at a rate of 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 gas and the gas transmission fee were 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.

48. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Notes: (Continued)

(ix) Beijing Enterprises Group Finance Co. Ltd. ("BE Group Finance") is a 48.21% owned associate of the Group and also a subsidiary of Beijing Enterprises Group. BE Group Finance was established to act as platform for members of Beijing Enterprises Group for the provision of intra-group facilities through financial products including deposit-taking, money-lending and custodian services.

Pursuant to a deposit services master agreement (the "Deposit Services Master Agreement") entered into between the Company and BE Group Finance on 29 December 2014, the Group may, in its ordinary and usual course of business, place and maintain deposits with BE Group Finance on normal commercial terms from time to time. The term of the Deposit Services Master Agreement shall commence on the date of the Deposit Services Master Agreement and continue up to and including 31 December 2016. Subject to compliance with the Listing Rules, upon the expiration of such initial term, the Deposit Services Master Agreement may be renewed by the Company and BE Group Finance by agreement in writing. The daily aggregate of deposits placed by the Group with BE Group Finance (including any interest accrued thereon) during the term of the Deposit Services Master Agreement will not exceed HK$3,700 million. The deposit services provided by BE Group Finance constitute continuing connected transactions that are subject to the announcement, reporting and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Interest rates on deposits placed in and loans offered by BE Group Finance denominated in Renminbi were determined by reference to the then prevailing market rates offered by 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 bankers of the Group.

The amounts of deposits placed by the Group with BE Group Finance as at the end of the reporting period are disclosed in note 28 to the financial statements. The amounts of loans borrowed by the Group from BE Group Finance as at the end of reporting period are disclosed in note 33(b)(ii) to the financial statements.

(x) The selling prices of goods were determined on a cost-plus basis.

(b) Outstanding balances with related parties

(i) Details of the Group's balances with related parties included in deposits and other receivables, and trade and bills payables and other payables and accruals are disclosed in notes 25, 40 and 41 to the financial statements, respectively.

(ii) Details of the Group's balances with joint ventures, associates, holding companies and fellow subsidiaries are disclosed in notes 19, 20, 24(a), 25, 26, 33(b)(ii) and 41 to the financial statements, respectively.

48. 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 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

	2015	2014
	HK$'000	*HK$'000*
Short term employee benefits	**27,938**	22,884
Pension scheme contributions	**29**	24
Total compensation paid to key management personnel	**27,967**	22,908

Further details of directors' emoluments are included in note 8 to the financial statements.

49. FINANCIAL INSTRUMENTS BY CATEGORY

Other than certain equity investments being classified as available-for-sale investments, as disclosed in note 21 to the financial statements, all financial assets and liabilities of the Group as at 31 December 2015 and 2014 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

As disclosed in note 21 to the financial statements, listed equity investments of the Group are stated at fair value based on their quoted market prices (as categorised within Level 1 of the fair value hierarchy); whilst the unlisted equity investments of the Group are stated at cost less any accumulated impairment losses because fair values of which cannot be reasonably assessed and therefore, no disclosure of the fair values of these financial instruments is made.

The fair value of the Group's guaranteed bonds and senior notes was HK$20,695,007,000 (2014: HK$15,380,743,000) and determined as Level 1. The fair value of the Group's guaranteed bonds and senior notes are based on price quotations from financial institutions at the reporting date.

For other non-current financial assets and liabilities, in the opinion of the directors, 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.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other loans, the guaranteed bonds and senior 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 amounts due from/to contract customers, trade and bills receivables, deposits and other receivables, trade and bills payables, other payables and accruals, receivables under service concession arrangements and amounts due from/to holding companies, fellow subsidiaries, an associate, 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 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 loans, the guaranteed bonds and senior 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.

51. 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 financial instruments as at the end of the reporting period that are exposed to interest rate risk:

	On demand or within 1 year	In the second year	3 to 5 years	Beyond 5 years	Total	Effective interest rate
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*%*
At 31 December 2015						
Floating rate:						
Restricted cash and pledged deposits	**73,003**	**–**	**–**	**–**	**73,003**	**0.35**
Cash and cash equivalents	**9,370,035**	**–**	**–**	**–**	**9,370,035**	**0.35**
Interest-bearing bank and other borrowings	**(6,559,105)**	**(460,692)**	**(6,261,888)**	**(366,324)**	**(13,648,009)**	**2.22**
Fixed rate:						
Cash and cash equivalents	**4,323,769**	**–**	**–**	**–**	**4,323,769**	**1.23**
Interest-bearing bank and other borrowings	**(389,485)**	**(128,211)**	**(409,274)**	**(589,064)**	**(1,516,034)**	**6.64**
Guaranteed bonds and senior notes	**–**	**–**	**(4,164,482)**	**(15,280,110)**	**(19,444,592)**	**4.35**
At 31 December 2014						
Floating rate:						
Restricted cash and pledged deposits	58,735	–	–	–	58,735	0.35
Cash and cash equivalents	10,124,140	–	–	–	10,124,140	0.35
Interest-bearing bank and other borrowings	(13,964,004)	(235,363)	(3,809,070)	(172,996)	(18,181,433)	2.51
Fixed rate:						
Cash and cash equivalents	1,083,566	–	–	–	1,083,566	2.43
Interest-bearing bank and other borrowings	(3,602,922)	(171,883)	(438,744)	(698,313)	(4,911,862)	4.99
Convertible bonds	(84,556)	–	–	–	(84,556)	0.91
Guaranteed senior notes	–	–	–	(13,879,298)	(13,879,298)	5.36

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

At 31 December 2015, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other loans and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK$31,301,000 (2014: HK$24,498,000).

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 2014.

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, the Group's statement of 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$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in profit before tax *HK$'000*	**Increase/ (decrease) in equity** *HK$'000*
2015		
If Hong Kong dollar weakens against RMB by 5%	**455,234**	**3,435,795**
If Hong Kong dollar strengthens against RMB by 5%	**(455,234)**	**(3,435,795)**
2014		
If Hong Kong dollar weakens against RMB by 5%	397,824	3,168,588
If Hong Kong dollar strengthens against RMB by 5%	(397,824)	(3,168,588)

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.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group is exposed to credit risk arising from its piped gas operation, brewery operation, sewage and water treatment operations 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. Aged analysis of trade and bills receivables are 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.

At the end of the reporting period, concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from receivables under service concession arrangements and trade and bills receivables are set out in notes 17 and 24 to the financial statements, respectively.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from joint ventures and associates, deposits and other receivables and amounts due from holding companies, fellow subsidiaries and related parties, arises from default of the counterparty, with a maximum exposure to the carrying amounts of these instruments.

51. 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, the guaranteed bonds and senior 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 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 receipts in advance and defined benefit plans) as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

At 31 December 2015

	On demand or within 1 year *HK$'000*	In the second year *HK$'000*	3 to 5 years *HK$'000*	Beyond 5 years *HK$'000*	Total *HK$'000*
Bank loans	3,392,747	346,370	7,220,259	891,853	11,851,229
Other loans	3,811,338	127,482	512,001	642,802	5,093,623
Guaranteed bonds and senior notes	844,460	844,460	6,741,680	22,336,090	30,766,690
Trade and bills payables	3,640,954	–	–	–	3,640,954
Accruals and other liabilities	6,726,376	30,322	–	–	6,756,698
Due to a holding company	1,261,656	–	–	–	1,261,656
Due to related parties	268,921	–	–	–	268,921
	19,946,452	1,348,634	14,473,940	23,870,745	59,639,771

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

At 31 December 2014

	On demand or within 1 year *HK$'000*	In the second year *HK$'000*	3 to 5 years *HK$'000*	Beyond 5 years *HK$'000*	Total *HK$'000*
Bank loans	14,079,184	748,567	5,012,248	941,041	20,781,040
Other loans	4,336,324	93,383	211,293	57,594	4,698,594
Guaranteed senior notes	706,726	706,726	2,120,178	19,669,315	23,202,945
Convertible bonds	84,556	–	–	–	84,556
Trade and bills payables	2,238,403	–	–	–	2,238,403
Accruals and other liabilities	5,446,741	40,082	–	–	5,486,823
Due to a holding company	1,880,364	–	–	–	1,880,364
Due to related parties	329,350	–	–	–	329,350
	29,101,648	1,588,758	7,343,719	20,667,950	58,702,075

Fair value risk

The Group's financial instruments that are carried in the financial statements at other than fair values are disclosed in note 50 to the financial statements. In the opinion of the directors, the Group's exposure to fair value risk in respect of its financial instruments is minimal.

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 2015 and 2014.

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.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

The Group monitors capital using a gearing ratio, which is interest-bearing bank and other borrowings and the guaranteed bonds and senior notes divided by the sum of total equity, interest-bearing bank and other borrowings and the guaranteed bonds and senior notes. The gearing ratios as at the end of the reporting periods are as follows:

	2015 ***HK$'000***	2014 *HK$'000*
Guaranteed bonds and senior notes	**19,444,592**	13,879,298
Interest-bearing bank and other borrowings	**15,164,043**	23,093,295
Total guaranteed bonds and senior notes and interest-bearing bank and other borrowings	**34,608,635**	36,972,593
Total equity	**68,652,170**	68,095,980
Total equity, guaranteed bonds and senior notes and interest-bearing bank and other borrowings	**103,260,805**	105,068,573
Gearing ratio	**34%**	35%

52. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 31 December 2015 amounted to HK$7,330,571,000 (2014: net current liabilities of HK$2,094,253,000) and HK$98,458,561,000 (2014: HK$89,056,152,000), respectively.

53. EVENTS AFTER THE REPORTING PERIOD

(a) Subscription of shares in Blue Sky Power Holdings Limited ("Blue Sky")

On 5 January 2016, Beijing Gas, a wholly-owned subsidiary of the Company, entered into a share subscription agreement (the "Subscription Agreement"), a convertible bond agreement (the "CB Agreement") and a disposal agreement (the "Disposal Agreement") with Blue Sky, a company listed on the Main Board of the Stock Exchange (Stock code: 6828) and principally engaged in sale and distribution of natural gas and other related products in the PRC.

Pursuant to the Subscription Agreement, the Group conditionally agreed to subscribe and Blue Sky conditionally agreed to allot and issue 2,155,555,555 ordinary shares at a subscription price of HK$0.45 per share, totaling HK$970,000,000.

Pursuant to the CB Agreement, the Group conditionally agreed to subscribe and Blue Sky conditionally agreed to issue a convertible bond of aggregate principal amount of HK$350,000,000 at an initial conversion price of HK$0.45 per share (equivalent to 777,777,777 ordinary shares).

Pursuant to the Disposal Agreement, the Group conditionally agreed to sell and Blue Sky conditionally agreed to purchase 51% equity interest in Beijing Gas Group (Teng County) Co., Ltd (principally engaged in distribution of natural gas to the industrial parks, residential and commercial users in the area of Teng County) at an aggregate consideration of HK$152,000,000, which shall be satisfied by Blue Sky allotting and issuing 337,777,778 ordinary shares to the Group.

Further details were set out in the announcements of Blue Sky published on the website of the Hong Kong Stock Exchange on 6 January 2016.

The above transaction was approved by the shareholders of Blue Sky at its special general meeting held on 16 March 2016. The transaction is not yet completed as at the date of approval of these financial statements.

53. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(b) Acquisition of EEW Holding Gmbh and M+E Holding Gmbh & Co. KG (the "EEW Group")

On 3 February 2016, the Group entered into an acquisition agreement with two independent third parties (the "Sellers") and pursuant to which the Group agreed to purchase and the Sellers agreed to sell the entire equity interest of the EEW Group at a cash consideration of EUR1,438,000,000.

EEW Group is a leading energy-from-waste ("EfW") company in Europe headquartered in Germany, with its principal business in the supply of electricity, steam and heat from waste. EEW Group operates a portfolio of 18 EfW plants located in Germany and neighbouring countries and accounted for approximately 17% market share of EfW business in Germany.

The transaction was completed on 2 March 2016 and the Group is in the process of making assessment on the fair value of net identifiable assets of the EEW Group to be recognised at the acquisition date.

Further details were set out in the Company's announcement published on the website of the Hong Kong Stock Exchange on 4 February 2016.

54. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the Hong Kong Company Ordinance (Cap. 622) during the current year, the presentation and disclosures of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and disclosures.

Certain comparative amounts have also been restated in the financial statements as a result of the completion of the initial accounting for the acquisition of GSEI, details of which of set out in note 43(b)(iv) of the financial statements.

55. 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:

	2015	2014
	HK$'000	*HK$'000*
ASSETS		
Non-current assets:		
Property, plant and equipment	**3,491**	5,096
Investment properties	**56,914**	56,914
Investments in subsidiaries	**57,569,731**	56,212,369
Investments in associates	**106,128**	106,177
Available-for-sale investments	**1,261,570**	1,256,760
Total non-current assets	**58,997,834**	57,637,316
Current assets:		
Trade and bills receivables	**1,047**	1,099
Prepayments, deposits and other receivables	**1,358,684**	1,384,313
Cash and cash equivalents	**1,183,806**	2,875,303
Total current assets	**2,543,537**	4,260,715
TOTAL ASSETS	**61,541,371**	61,898,031

55. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2015 *HK$'000*	2014 *HK$'000*
EQUITY AND LIABILITIES		
Equity:		
Share capital	**30,401,883**	30,401,883
Reserves (note)	**1,032,882**	1,135,112
TOTAL EQUITY	**31,434,765**	31,536,995
Non-current liabilities:		
Bank and other borrowings	**5,371,917**	2,960,250
Due to subsidiaries	**17,795,339**	14,785,877
Total non-current liabilities	**23,167,256**	17,746,127
Current liabilities:		
Other payables and accruals	**1,436,478**	1,951,563
Income tax payable	**85,372**	85,372
Bank and other borrowings	**5,417,500**	10,577,974
Total current liabilities	**6,939,350**	12,614,909
TOTAL LIABILITIES	**30,106,606**	30,361,036
TOTAL EQUITY AND LIABILITIES	**61,541,371**	61,898,031

Zhou Si
Director

Tam Chun Fai
Director

55. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follow:

	Share premium account	Capital redemption reserve	Treasury shares	Capital reserve	Available-for-sale investment revaluation reserve	Property revaluation reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2014	29,607,291	238	–	13,220	(22,773)	17,561	775,301	30,390,838
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	1,544,278	1,544,278
Final 2013 dividend declared	–	–	–	–	–	–	(763,695)	(763,695)
Interim 2014 dividend	–	–	–	–	–	–	(359,618)	(359,618)
Shares repurchased	(105)	105	–	–	–	–	(69,162)	(69,162)
Transition to no-par value regime	(29,607,186)	(343)	–	–	–	–	–	(29,607,529)
At 31 December 2014 and 1 January 2015	–	–	–	13,220	(22,773)	17,561	1,127,104	1,135,112
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	1,195,379	1,195,379
Final 2014 dividend	–	–	–	–	–	–	(796,297)	(796,297)
Interim 2015 dividend	–	–	–	–	–	–	(385,305)	(385,305)
Shares repurchased	–	–	(46,623)	–	–	–	(69,384)	(116,007)
At 31 December 2015	–	–	(46,623)	13,220	(22,773)	17,561	1,071,497	1,032,882

56. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2016.

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