ANNUAL
REPORT
2018

BEIJING ENTERPRISES HOLDINGS LIMITED

Stock Code : 392

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

Mr. Wu Jiesi
Mr. Lam Hoi Ham *(Committee Chairman)*
Mr. Ma She

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Hou Zibo *(Committee Chairman)*
Mr. Lam Hoi Ham
Mr. Ma She

INVESTMENT COMMITTEE

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

COMPANY SECRETARY

Mr. Tam Chun Fai *CPA CFA*

STOCK CODE

392

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www.behl.com.hk

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Fax: (852) 2857 5084

AUDITORS

Ernst & Young

CORPORATE INFORMATION

LEGAL ADVISERS

Hong Kong Law
Mayer Brown

PRC Law
Haiwen & Partners

US Law
Mayer Brown

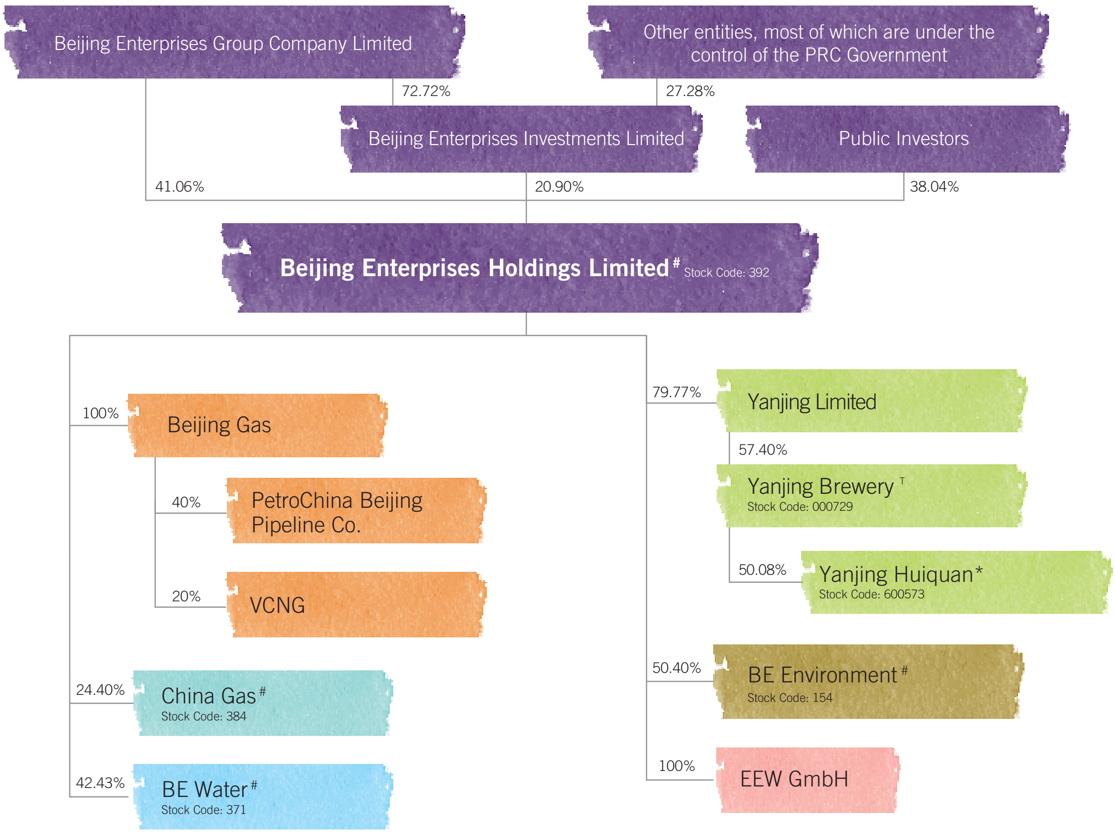
PRINCIPAL BANKERS

In Hong Kong
Bank of China, Hong Kong Branch
Bank of Communications, Hong Kong Branch
DBS Bank Ltd., Hong Kong Branch

In Mainland China
Agricultural Bank of China
Bank of China
China Construction Bank
The Industrial and Commercial Bank of China
Bank of Beijing

CORPORATE STRUCTURE

As at 31 December 2018



* *Listed on The Shanghai Stock Exchange*

T *Listed on The Shenzhen Stock Exchange*

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

FINANCIAL HIGHLIGHTS

Financial Highlights **for the year ended 31 December**	**2018** ***HK$'000***	2017 *HK$'000*	**Change**
Turnover	**67,764,770**	57,508,025	**17.8%**
Gross profit	**10,563,665**	9,362,883	**12.8%**
Profit for the year	**7,936,641**	7,187,277	**10.4%**
Profit attributable to shareholders of the Company	**7,577,383**	6,880,378	**10.1%**
Basic and diluted EPS (in HK dollars)	**6.00**	5.45	**10.1%**
Total dividend per share (in HK dollars)	**1.05**	0.98	**7.1%**
EBIT	**11,073,195**	9,628,942	**15.0%**
EBITDA	**15,023,388**	13,131,581	**14.4%**
Total assets	**174,496,280**	171,549,018	**1.7%**
Bank balance and cash	**17,975,479**	17,884,920	**0.5%**
Shareholders' equity	**69,672,617**	67,568,050	**3.1%**

Key financial indicators **for the year ended 31 December**	**2018**	2017
Average finance costs	**3.3%**	2.9%
Current ratio (times)	**1.12**	1.05
Gross profit margin	**15.6%**	16.3%
Net gearing ratio	**51.3%**	53.8%
Net profit margin	**11.7%**	12.5%
Payout ratio (%)	**17.5%**	18.0%
Return on average equity	**11.0%**	11.0%

Definitions:

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

CHAIRMAN'S STATEMENT

In 2018, the global economy encountered more unstable factors with downside risks gradually intensifying. China's economic operation remained stable overall with its structure continued to optimize and quality stepping up steadily. BEHL actively responded to the profound and complex changes both domestically and abroad, strengthened its strategic direction of corporate development, coordinated the promotion of key tasks, and achieved a stable growth in operating results.

According to the financial statements prepared under the HKFRSs, the Company achieved an operating revenue of HK$67.76 billion in 2018, representing a year-on-year increase of 17.8%. Profit attributable to shareholders of the Company amounted to HK$7.58 billion, representing a year-on-year increase of 10.13%. Basic and diluted earnings per share amounted to HK$6, representing a year-on-year increase of 10.1%. The Board proposed the distribution of a final dividend of HK73 cents per share.

For gas business, Beijing Gas vigorously carried out the cooperation with upstream and mid-stream resources to optimize its investment layout in gas stations, pipeline network and gas tanks. At the same time, it strengthened the downstream market expansion, continued to promote the blue-sky protection tasks, and rooted the concept of comprehensive energy services and intelligence gas in the energy construction system of Xiong'an New District.

CHAIRMAN'S STATEMENT

For beer business, under the leadership of the new management team, Yanjing Brewery adhered on improving the overall product quality and focused on strengthening the construction of the base market. Yanjing Brewery optimized its product structure, fortified middle-end products development, increased the proportion of canned products, and propelled the white beer strategy. Structural price increase for leading products was conducted during the year to follow the pace of the new consumption trends.

For water treatment and environmental business, under the strategic goal of building a dual platform of "asset management and operation management", BE Water continued to expand and strengthen the two core principal businesses of urban water services and water environment comprehensive management. BE Water actively studied and implemented the asset-light operation model of water environment projects to improve the investment quality and efficiency of its own funds.

The solid waste treatment business continued to expand its scale in 2018. By optimizing the incineration technology and cost control, the Company continued to enhance its comprehensive capabilities in operation management, improved the economic efficiency of project production, and ensured the environmental emissions of equipment meeting the standards. Regular technical application and operation management connection with EEW GmbH were carried out for domestic projects and completed the operation of big data management system preliminarily.

2019 is a crucial period for BEHL to adhere to the principle of high-quality development and facilitate breakthroughs in reform and innovation. The Group will actively adapt to the changes in policy, industry and market environment. Externally, the Group will rely on brand strategy synergy, strengths in public utility leading resources and international advanced technology background to actively implement national and regional development strategies. Internally, the Group will implement innovative reforms, optimize the quality and efficiency of capital operation, promote the coordinated development of resources integration, and strive to achieve a new breakthrough in the value growth of BEHL. The Group will also focus on the harmonious development of our own business with the economy, society and environment, and proactively perform various social responsibilities. We will exert positive impact on social development and environmental construction to reciprocate the support and understanding from our shareholders and all sectors of the society.

Hou Zibo
Chairman and CEO

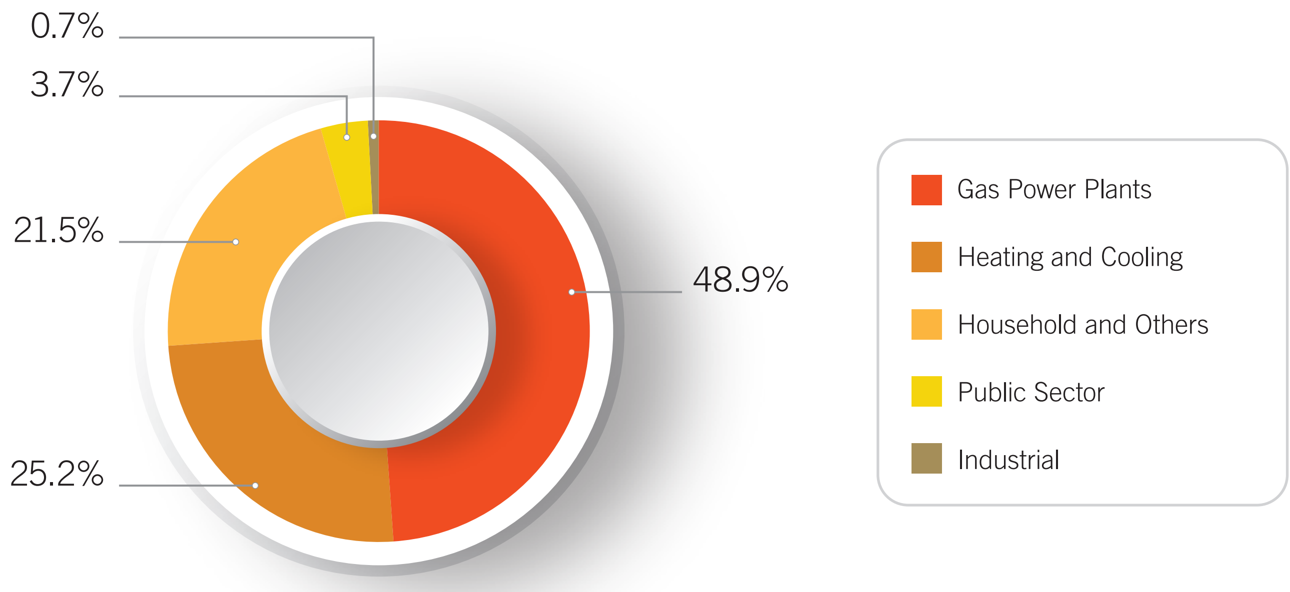
Hong Kong
28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

Natural Gas Distribution Business of Beijing Gas

Beijing Gas Group Company Limited ("Beijing Gas") recorded a revenue of HK$48.65 billion in 2018, representing a year-on-year increase of 22.0%; profit before taxation from principal businesses (including natural gas distribution business, natural gas transmission business and VCNG of Rosneft) was HK$5.73 billion, representing a year-on-year increase of 12.9%. Sustainable development of each business segment was achieved through their relentless efforts. As affected by several factors such as increase in power plant gas consumption, increase in the usage of boilers and rural "coal to gas" conversion projects, the gas sales volume reached 16.83 billion cubic meters for the year, representing a year-on-year increase of 15.4%. An analysis by subscriber sector is shown as follows:



In 2018, Beijing Gas developed 190,000 new household subscribers and 8,611 new public sector subscribers. New heating boiler subscribers with a total capacity of 5,241 t/h were developed. As at 31 December 2018, Beijing Gas had a total of approximately 6.18 million piped gas subscribers in Beijing and approximately 23,500 kilometers of natural gas pipelines in operation. Beijing Gas's capital expenditure for the year amounted to approximately HK$4.61 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW *(Continued)*

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

Beijing Gas steadily propelled the strategic business in the mid-stream market in 2018, actively facilitated the investment and construction of Tangshan LNG storage tank phase II project to build an important strategic resource receiving base. In the downstream market, Beijing Gas continued to promote the blue-sky protection tasks. For the entire year, it completed the conversion of rural "coal to gas" development of about 24,600 households in 57 villages, built 705 kilometers of pipeline network, 89 pressure regulating stations (tanks) and 3 LNG stations, totaling 92 stations. Beijing Gas also accelerated the investment and construction of intelligence gas project of Beijing sub-center, focused on the coordinated development of Beijing, Tianjin and Hebei Province, and rooted the concept of comprehensive energy services and intelligence gas in the energy construction system of Xiong'an New District, thereby laying a foundation for participating in the construction of the New District. In the markets outside Beijing, Beijing Gas successfully acquired 60% controlling interests in Tangshan Natural Gas Company Limited（唐山市天然氣有限公司）and successfully acquired the interests in the inter-provincial pipeline network construction project in Heilongjiang.

Natural Gas Transmission Business

PetroChina Beijing Gas Pipeline Co., Ltd. ("PetroChina Beijing Pipeline Co.") recorded a gas transmission volume of 49.4 billion cubic meters in 2018, representing a year-on-year growth of 27.9%. As a result of the adjustment of the inter-provincial natural gas pipeline transmission pricing method effective from 1 September 2017, Beijing Gas's share of net profit after taxation, through its 40% equity interests in PetroChina Beijing Pipeline Co., decreased by 26.6% to HK$1.67 billion. The capital expenditure of PetroChina Beijing Pipeline Co. for the year was HK$3.05 billion.

VCNG of Rosneft

The PJSC Verkhnechonskneftegaz ("VCNG") project of Rosneft Oil Company has become a new source of profit for the Group since the second half of 2017. VCNG achieved its petroleum sales of 8.18 million tons in 2018. Beijing Gas shared a net operating profit after tax of HK$1.36 billion through its 20% equity interest in VCNG.

MANAGEMENT DISCUSSION AND ANALYSIS

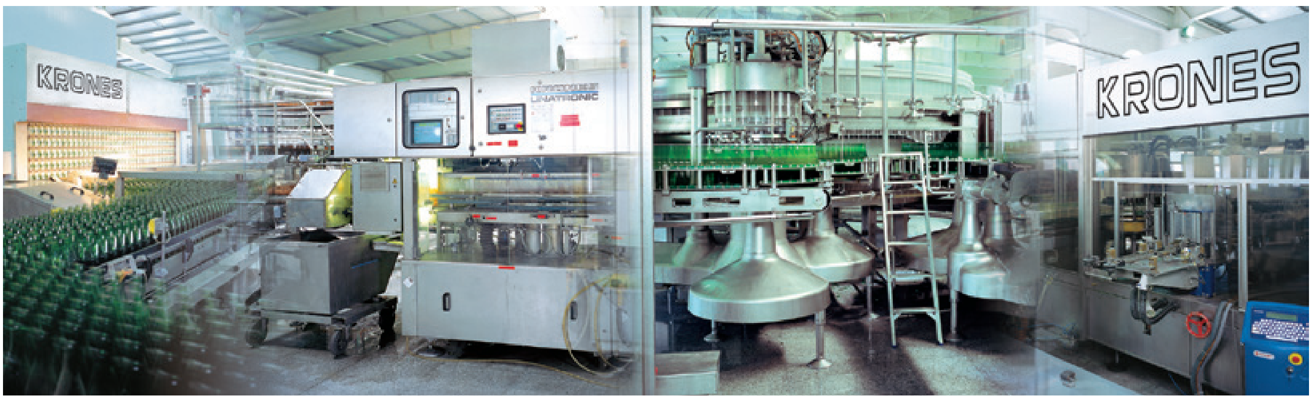
I. BUSINESS REVIEW *(Continued)*

China Gas

China Gas Holdings Limited ("China Gas", stock code: 384) achieved a profit attributable to the Group of HK$1.7 billion in 2018, representing a year-on-year increase of 22.1%. During the six months ended 30 September 2018, China Gas achieved a sales volume of 10.98 billion cubic meters in natural gas, representing a year-on-year increase of 33.1%. It achieved a sales volume of 1.958 million tons in LPG, representing a year-on-year increase of 1.0%. Approximately 2.535 million households were newly connected and the cumulative number of households connected reached 27.105 million as at 30 September 2018.

Beer Business

In 2018, Beijing Yanjing Brewery Co., Ltd. ("Yanjing Brewery") actively tackled the operating pressure it faced, adapted itself to consumption upgrading, expanded business thinkings, therefore maintaining a stable and healthy development. Yanjing Brewery continued to optimise its product structure, with structural price increases for its leading products during the year. In conforming to the new consumption trend, it expanded the supply of personalised high-end products, with the profitability of sales per ton enhanced.



In 2018, as affected by continuous industry adjustments and sustained heavy rains in the southern regions in summer, Yanjing Brewery recorded a sales volume of 3.92 million kilolitres, of which, the sales volume of Yanjing main brand was 2.73 million kilolitres, sales volume of "1+3" brand was 3.65 million kilolitres. The revenue that Yanjing Brewery recorded was HK$12.37 billion during the year. Its profit before tax was HK$410 million. The capital expenditure of Yanjing Brewery for the year was approximately HK$613 million.

I. BUSINESS REVIEW *(Continued)*

Water and Environmental Business

Beijing Enterprises Water Group Limited ("BE Water", stock code: 371), under the strategic goal of "building a dual platform of asset management and operation management", it continued to expand and strengthen the two core businesses of urban water services and water environment comprehensive management. BE Water actively studied and implemented the asset-light operation model of water environment projects to improve the investment quality and efficiency of its own funds. This company's operating revenue increased by 16.1% to HK$24.6 billion due to operating income increase from integrated treatment projects and water treatment services, and profit attributable to shareholders of the associate increased by 20% to HK$4.47 billion. The net profit attributable to the Group was HK$1.9 billion, a year-on-year increase of 17.4%.

As at 31 December 2018, BE Water already participated in 937 water plants which are or will be in operation, including 771 sewage treatment plants, 139 water distribution plants, 25 reclaimed water plants and 2 seawater desalination plants, with a total designed capacity of 36.82 million tons/day. The net increase in daily designed capacity for the year was 5.437 million tons/day.

Solid Waste Treatment Business

At the end of the 2018, the solid waste treatment business segment of the Group had realised a waste incineration and power generation integrated treatment capacity of 25,288 tons/day and hazardous waste treatment capacity of 115,000 tons/year. During the year, EEW Energy from Waste GmbH ("EEW GmbH") achieved an operating revenue of HK$5.12 billion, representing a year-on-year increase of 6.6%. Beijing Enterprises Environment Group Limited ("BE Environment", stock code: 154) and Beijing Enterprises Holdings Environment Technology Co., Ltd ("BEHET") together achieved a total operating revenue of HK$1.52 billion and profit attributable to shareholders of the Group of HK$158 million. The capital expenditure of solid waste related business (domestically and overseas) for the year amounted to approximately HK$1.35 billion.

I. BUSINESS REVIEW *(Continued)*

Solid Waste Treatment Business *(Continued)*

In 2018, EEW GmbH accomplished a waste treatment volume of 4.705 million tons, sales of electricity of 1.699 billion KWH, sales of heat of 775 million KWH and sales of steam of 1.875 billion KWH. Regular technical application and operation management connection with EEW GmbH were carried out for domestic projects to improve the quality of project operation and construction services. The domestic solid waste treatment business of the Group in China completed a waste treatment volume of 4.19 million tons. It accomplished an on-grid power generation volume of 1.11 billion KWH. The most representative Haidian project of BE Environment was formally entered the commercial operation phase in late August 2018, and began to contribute stable operating profit for the Group during the year.

Material Capital Operation

In 2018, the Group raised EUR350 million through regular bank loans. In addition, as a major shareholder, the Group together with the market entities participated in the purchase of additional shares of BE Water, which reflected the Group's confidence and support for the future development of the water business segment.

Principal Risks – Exchange Rate Fluctuation

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

During 2018, the exchange rates of RMB against Hong Kong dollar and U.S. Dollar had weakened. However, the Board did not expect the mild fluctuation of RMB's exchange rate in the future will have material adverse impact on the operations of the Group. As the Euro assets and Euro debts of the Group were basically matched, the Group was less affected by the fluctuation of Euro exchange rate.

Main Uncertainties

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

II. PROSPECTS

Natural Gas Distribution Business of Beijing Gas

Beijing Gas will accelerate its market development comprehensively and expand the potential value of the industrial chain. In the urban gas sector, based on the natural gas pipe network in Beijing, Beijing Gas will combine the pipeline transmission model with station supply, connect the gas market in the surrounding urban area and expand the business scale. In the LNG sector, Beijing Gas will optimise the existing LNG resources portfolio, build an LNG sales platform and enhance international LNG trade. In the integrated energy service sector, Beijing Gas will continue to promote the intelligence energy construction of Beijing sub-center, Beijing New Aerotropolis and Xiong'an New District, and strive to build a number of high-end exemplary projects.

China Gas

China Gas will actively promote the reform and development of the three business segments of urban gas, LPG and value-added services. It will grasp the opportunities brought by the policies and market demand, focus on expanding market share, enhance operating efficiency, and at the same time, deepen cost control, promote the integration of information system, improve the standard of safe operation and risk management capabilities, promote sustained and stable growth performance, and build a new ecosystem for the 4G (LNG, CNG, LPG, PNG) energy network development.

Natural Gas Transmission Business

With the implementation of the national "coal-to-gas" project, the demand for residential and industrial gas has risen sharply year by year. The Shaanxi-Beijing pipeline system, which undertakes the gas supply tasks in the capital and regions along the line, will enhance the transmission capability of pipeline network by scientific and rational arrangements of pipe network and compressor unit operation, and improve the pipeline transmission efficiency and increase its guaranteed supply ability at the source. PetroChina Beijing Pipeline Co. will increase the daily gas transmission capacity of the Shaanxi-Beijing No.4 Line through the construction of the Togtoh gas station on the fourth line of Shaanxi-Beijing, laying a foundation for the smooth operation of pipeline in the next heating season.

II. PROSPECTS *(Continued)*

Beer Business

Currently, consumption upgrade is driving continuous structural shift of China's beer product to middle-and high-end. Yanjing Brewery will continue to promote the strategy of Yanjing fresh beer and canned beer, and expand the market recognition of Yanjing high-end products such as Yanjing white beer. At the same time, Yanjing Brewery will expand its marketing measures to meet diversified consumer demand. Yanjing Brewery will take improving quality and increasing efficiency as the overall goal, highlight the construction of excellent quality system and base market, enhance cost control, and strive to ensure the steady growth of enterprise competitiveness and economic benefits.

Water and Environmental Business

With a view to shifting from high-speed development to quality growth, the Group's water and environmental business will reinforce its presence and continue to expand and strengthen its two core businesses, namely urban water services and water environment comprehensive renovation, in adherence to the development strategy of setting up asset management and operational management platforms and by way of comprehensive innovation. In achieving its yearly business goals and pursuing a momentous and leapfrogging growth, BE Water will be dedicated to promote the ecological value of the entire industry and the creation of a community of shared future for mankind across the world.

Solid Waste Treatment Business

In terms of solid waste treatment business, the Group will strengthen its market research and investment analysis, as well as the refined management of projects in operation, strictly control production safety and environmental protection emissions and other business risks, and accelerate the improvement of scale efficiency and profit contribution of the solid waste industry. For the projects under construction, it is necessary to strengthen the project progress control, enhance the construction organisation and site management, and realise project commissioning to commercial operation as soon as possible. As for the old projects and those that have problems, we will co-ordinate to carry out transformation by tender, accelerate the assimilation and transformation of the operation and management experience of EEW GmbH, complete project technical rectification evaluation and proposal preparation, and endeavour to strengthen the overall market competitiveness of the solid waste treatment sector of the Group.

III. FINANCIAL REVIEW

Revenue

The revenue of the Group in 2018 was HK$67.76 billion, representing an increase of 17.8% when compared with 2017. Of which, the revenue of Beijing Gas sales was HK$48.65 billion, representing a year-on-year increase of 22%, which accounted for 71.8% of total revenue. The revenue of beer sales was HK$12.37 billion, which accounted for 18.2% of total revenue. The solid waste treatment businesses contributed a total revenue of HK$6.75 billion, which accounted for 10% of total revenue, which included the revenue of EEW GmbH amounting to HK$5.12 billion.

Cost of Sales

Cost of sales increased by 18.8% to HK$57.2 billion. Cost of sales of gas distribution business included purchase cost of natural gas as well as depreciation of piped line network. Cost of sales of brewery business included raw materials, wage expenses and absorption of certain direct overheads. Cost of sales of solid waste treatment operation included fuel charges, amortisation and waste collection costs.

Gross Profit Margin

In 2018, the overall gross profit margin was 15.6%, representing a decrease by 0.7% when compared with the 16.3% in 2017. The decrease in overall gross profit margin was mainly attributable to the increase of purchase cost of Beijing Gas during the year.

Gain on Deemed Disposal of the Partial Interests in Associates

During the first half of 2018, BE Water issued ordinary shares under the placement and subscription exercise. The Group recognised a gain of HK$330 million on the deemed disposal of partial interest in an associate as a result of the decrease in shareholding in BE Water from this placement and subscription exercise.

During the year, China Gas issued ordinary shares upon the exercise of share options by its employees. The Group recognised a gain on deemed disposal of the partial interest in an associate of HK$219 million.

Other Income

Other income mainly comprised of government grants amounted to HK$94 million; dividend income of HK$300 million; value-added tax refund income of HK$80.83 million; bank interest income amounted to HK$310 million; and rental income of HK$43.86 million.

III. FINANCIAL REVIEW *(Continued)*

Selling and Distribution Expenses

Selling and distribution expenses of the Group in 2018 decreased by 2.5% to HK$2.24 billion which was mainly due to the enhancement of marketing efficiency and effective selling and distribution expenses control for the brewery business.

Administrative Expenses

Administrative expenses of the Group in 2018 were HK$4.78 billion, increased by 9.5% when compared to last year, which was mainly due to the increase in relevant expenses resulting from employee benefits improvement under defined benefit plans of Beijing Gas as well as the expansion of distribution business.

Other Operating Expenses, net

Other operating expenses, net mainly included the impairment on certain construction in progress for solid waste business.

Finance Costs

Finance costs of the Group in 2018 was HK$1.98 billion, increased by 23.9% comparing to 2017, which was mainly due to issuance of bonds of EUR800 million in April 2017 and US$500 million guaranteed notes issued by Beijing Gas in May 2017.

Share of Profits and Losses of Associates

Share of profits and losses of associates mainly included the 40% share of profit attributable to shareholders of PetroChina Beijing Pipeline Co., the 20% share of profit attributable to shareholders of VCNG, the 24.91% share of profit attributable to shareholders of China Gas and the 42.43% share of profit attributable to shareholders of BE Water.

In 2018, the Group shared the profit after taxation of PetroChina Beijing Pipeline Co. amounting to HK$1.67 billion, the Group shared the operating profit after taxation of VCNG amounting to HK$1.36 billion, and the Group shared the profit after taxation of China Gas amounting to HK$1.7 billion and shared net profit of BE Water amounting to HK$1.9 billion.

Taxation

After deducting the share of profits and losses of associates and jointly-controlled entities, the effective income tax rate was 47.6%, higher than the 38.8% in the corresponding period of last year, which was mainly due to other non-deductible operating expenses being higher than that in the corresponding period of last year.

Profit Attributable to Shareholders of the Company

The profit attributable to the shareholders of the Company for the year ended 31 December 2018 was HK$7.58 billion (2017: HK$6.88 billion).

IV. FINANCIAL POSITION OF THE GROUP

Non-current assets

Property, plant and equipment

The net book value of property, plant and equipment was approximately HK$51.72 billion, which was comparable with that of last year.

Other intangible assets

Other intangible assets were mainly from EEW GmbH.

Investments in associates

The increase in the balance by HK$5.39 billion was mainly due to share of attributable profits from BE Water, PetroChina Beijing Pipeline Co., VCNG and China Gas.

Equity investments designated at fair value through other comprehensive income

Under HKFRS 9, part of available-for-sale investments is reclassified to equity investments designated at fair value through other comprehensive income during the year, which mainly represented the fair value of Beijing Gas's investment in CNPC Capital Company Limited.

Receivables under finance lease

Balance of receivables under finance lease was from EEW GmbH.

Convertible bonds receivables

The balance of convertible bonds receivable as at the end of last year represented the convertible bonds issued by Beijing Gas Blue Sky Holdings Limited ("Blue Sky") to Beijing Gas, which were converted by Beijing Gas into ordinary shares of Blue Sky during the year.

Financial asset at fair value through profit or loss

Under HKFRS 9, part of available-for-sale investments is reclassified to financial asset at fair value through profit or loss during the year, which mainly represented the fair value of Beijing Gas's investment in PetroChina Pipelines Co., Ltd.

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

Current assets

Inventories

The decrease in the balance by HK$156 million was mainly due to decrease in inventories of Yanjing Limited.

Trade and bills receivables

The balance increased by HK$1.2 billion, which was mainly due to the increase in account receivables of Beijing Gas from power factory users during the heating season.

Cash and Bank Borrowings

As at 31 December 2018, cash and bank deposits held by the Group amounted to HK$17.94 billion. The Group maintains sufficient banking facilities for its working capital requirements and has sufficient cash resources to finance its capital expenditures in the foreseeable future.

The Group's total borrowings amounted to HK$59.52 billion as at 31 December 2018, which comprised, inter alia, guaranteed bonds and senior notes of US$2.5 billion in total, Euro guaranteed bonds amounting to EUR1.3 billion and medium and long-term loans amounting to HK$16.7 billion. Around 64.3% of the total borrowings were denominated in US and Hong Kong dollar and 30.7% in Euro. The Group had net borrowings of HK$41.58 billion as at 31 December 2018.

Investment in an associate classified as held for sale

The balance was nil because Beijing Gas completed its disposal of PetroChina Jingtang LNG Co., Ltd. to Blue Sky during the year.

Non-current liabilities

Bank and other borrowings

There was a decrease of HK$579 million in long and short term balance in total, which was mainly due to repayment of partial bank loans by Beijing Gas.

Guaranteed bonds, notes and senior notes

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

Onerous contracts and major overhauls

The balances were mainly from EEW GmbH.

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

Current liabilities

Other payables, accruals and contract liabilities

The increase in the balance by HK$1.39 billion was mainly due to the increase in receipts in advance from residential users and public sector subscribers for the refillment of IC Card Value and the amounts payable of projects by Beijing Gas.

Liquidity and Capital Resources

The downstream natural gas distribution business, plus dividend income from PetroChina Beijing Pipeline Co., dividends from BE Water, China Gas and EEW GmbH, have been constantly contributing to the operating cash flow of the Group and significantly increased its liquidity. As at the end of 2018, the issued capital of the Company amounted to 1,262,053,268 shares and the shareholders' equity was HK$69.67 billion. Total equity was HK$81.02 billion. The gearing ratio, which is all the interest-bearing borrowings, guaranteed bonds, notes and senior notes divided by the sum of total equity plus all interest-bearing borrowings, guaranteed bonds, notes and senior notes was 42% (2017: 43%).

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

HOU Zibo, aged 53, is the Executive Director, Chairman and CEO of the Company. Mr. Hou also serves as Vice Chairman and General Manager of Beijing Enterprises Group Company Limited. Mr. Hou graduated from the School One of Ministry of Aerospace Industry with the specialty in Structural Mechanics and China Europe International Business School with the specialty in Business Administration; possesses a master degree in engineering, an MBA degree and the title of Professor-grade Senior Engineer. He was Deputy Director of Institute 702 of Ministry of Aerospace Industry and participated in many science and research projects of the state. Subsequently, Mr. Hou acted as Director and Deputy General Manager of Beijing Jingcheng Machinery Electric Holding Co., Ltd. From 2005 to 2010, he was Deputy Director of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. Mr. Hou has extensive experience in state-owned assets management, corporate assets management and capital operations. Mr. Hou joined the Group in March 2012.

LI Yongcheng, aged 57, is the Executive Director and Vice Chairman of the Company. Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master's degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd. He is currently Vice Chairman and Executive Deputy General Manager of Beijing Enterprises Group Company Limited, and is also Chairman and Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). Mr. Li possesses extensive experience and professional expertise in public utilities industry, and also has plenty of experience in enterprise operations and capital operations. Mr. Li was Vice President of the Company from August 2007 to March 2011, and subsequently re-joined the Company as Executive Director in March 2014 and was re-designated as Executive Director and Vice Chairman in March 2016.

ZHAO Xiaodong, aged 46, is the Executive Director and Vice Chairman of the Company. Mr. Zhao obtained a master's degree of mechanical manufacturing from Beijing University of Technology and once studied for a doctor's degree in management science and engineering at Beijing University of Technology. Mr. Zhao has joined Beijing Yanjing Beer Group since 1998. He is currently Chairman of Beijing Yan Jing Beer Group Company and Chairman and General Manager of Beijing Yanjing Brewery Co., Ltd. (the shares of which are listed on the Shenzhen Stock Exchange with stock code: 000729). Mr. Zhao was appointed as Executive Director and Vice Chairman of the Company in September 2017.

E Meng, aged 60, is the Executive Director and Executive Vice President of the Company. Mr. E also serves as the Vice General Manager and CFO of Beijing Enterprises Group Company Limited, the Chairman and Executive Director of Beijing Enterprises Environment Group Limited (stock code: 154), and the Vice Chairman and Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). 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 chief 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. Mr. E has extensive experience in economics, finance and enterprise management. Mr. E joined the Group in November 1997.

DIRECTORS AND SENIOR MANAGEMENT

JIANG Xinhao, aged 54, is the Executive Director and Vice President of the Company. Mr. Jiang also serves as Vice General Manager of Beijing Enterprises Group Company Limited, Executive Director of Beijing Enterprises Water Group Limited (stock code: 371) as well as Non-executive Director of China Gas Holdings Limited (stock code: 384). Mr. Jiang is a chief senior economist. He graduated from Fudan University in 1987 with a bachelor's degree in law, then he served as a Policy Analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. In 1992, he was granted a master's degree in law at Fudan University. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a Deputy General Manager of Jingtai Finance Company in Hong Kong, and subsequently a Director and Vice President of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a Director and the Chief Executive Officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was Manager of the investment development department of Beijing Holdings Limited and General Manager of Beijing BHL Investment Center between May 2000 and February 2005. From January 2011 to June 2016, Mr. Jiang was Executive Director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Jiang has extensive experience in economics, finance and corporate management. Mr. Jiang joined the Group in February 2005.

TAM Chun Fai, aged 56, is the Executive Director, Chief Financial Officer and Company Secretary of the Company. Mr. Tam also serves as the Independent Non-executive Director of Hi Sun Technology (China) Limited (stock code: 818) and KWG Property Holding Limited (stock code: 1813). Mr. Tam graduated from the Hong Kong Polytechnic University with a bachelor's degree in accountancy and is a regular member of Chartered Financial Analyst and a member of Hong Kong Institute of Certified Public Accountants. Mr. Tam has extensive experience in auditing and corporate advisory services with major international accounting firms. He was involved in floatation and audit work of a wide variety of businesses, including electronics, electrical appliances, athletic shoes manufacturing, banking, insurance, securities and property development. Mr. Tam joined the Group in April 1997 and has been involved in corporate finance, compliance and investor relationship function of the Group. Through his role as Independent Non-executive Director in Hi Sun Technology (China) Limited and KWG Property Holding Limited, Mr. Tam further enriches his experience in corporate governance and compliance work of listed companies in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

WU Jiesi, aged 67, 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). 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, 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). He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

DIRECTORS AND SENIOR MANAGEMENT

LAM Hoi Ham, *Justice of Peace*, aged 80, was graduated from the faculty of economics of The University of Hong Kong, is the founder of the accounting firm H H Lam & Co., and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lam was granted Medal of Honour by The Hong Kong Government in 1994 and was appointed a Justice of the Peace in 1997. Mr. Lam previously served as a Standing Committee member of the 10th and 11th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China of Beijing City and served as its Senior Consultant. He was the Vice Chairman of Beijing Overseas Friendship Association and a committee member of Beijing Health Department Overseas Friendship Association, etc. Mr. Lam joined the Group in March 2008.

SZE Chi Ching, *SBS, Justice of Peace*, aged 79. Dr. Sze obtained an honorary doctorate degree in social sciences from City University of Hong Kong in 2008. He previously served as Hong Kong Affairs Advisor to the State Council, Vice Chairman of All-China Federation of Industry and Commerce, standing committee member of the Chinese People's Political Consultative Conference of Fujian Province, member of China Trade Advisory Board of Hong Kong Trade Development Council, member of the 8th, 9th, 10th and 11th Committee of Chinese People's Political Consultative Conference; Associate Director of the 11th Committee for Learning and Cultural and Historical Data of the Committee of the People's Political Consultative Conference; Vice Chairman of China Civilian Chamber of Commerce. He is currently honorary committee member of China Federation of Literary, consultant of China Calligraphers Association, 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, Executive Director of the Board of Trustees of Jimei University, etc. Mr. Sze joined the Group in March 2013.

YU Sun Say, *G.B.M., J.P.*, aged 80. 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. Dr. Yu joined the Group in March 2014.

MA She, aged 62, 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 organization 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.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

ZHI Xiaoye, aged 51, is Vice President of the Company. Mr. Zhi also serves as General Manager of Beijing Gas Group Company Limited, and Non-Executive Director and Co-Chairman of Beijing Gas Blue Sky Holdings Limited (stock code: 6828). Mr. Zhi graduated from Beijing University of Technology with a master degree in Management Science and Engineering, possesses the title of senior engineer, and had worked at Tokyo Gas in Japan as Researcher, at Beijing Gas Group Company Limited as transmission branch Manager, at Beijing Dingxin New Technology Company Limited (北京市鼎新新技術有限公司) as Chairman and at Beijing Gas Group Company Limited as Executive Deputy General Manager. Mr. Zhi has plenty of experience in pipe gas business and corporate management. Mr. Zhi was appointed as Vice President of the Company in July 2014.

KE Jian, aged 50, is Vice President of the Company. Mr. Ke also serves as an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371) and Executive Director, Vice Chairman and CEO of Beijing Enterprises Environment Group Limited (stock code: 154). Mr. Ke is a PRC chief senior accountant, certified tax agent and senior international finance manager. Mr. Ke received a bachelor's degree in economics from Beijing College of Finance and Commerce and an MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration. He joined the Company in 1997 and was appointed as Vice President of the Company in April 2011.

SHA Ning, aged 48, is Vice President of the Company. 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 studied Accounting in Beijing School of Business and Capital University of Economics and Business. She obtained an EMBA degree from The Hong Kong University of Science and Technology, and was granted the title of PRC senior accountant. Ms. Sha has accumulated extensive experience in financial management. Ms. Sha joined the Group in 2001 and has been appointed as Vice President of the Company since January 2017.

JIN Feng, aged 40, is Vice President of the Company. Mr. Jin studied at School of Economics and Business Administration, Beijing Normal University from 2001 to 2004 for the corporate management professional postgraduate programme. During his tenure at the research institute and general office of State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality from 2004 to 2009, Mr. Jin was once transferred to work with State-owned Assets Supervision and Administration Commission of the State Council. From 2009 to 2017, he worked with Beijing Enterprises Group Company Limited as Senior Office Manager, and later as Deputy Director of research institute and Office Director, respectively. Mr. Jin was appointed as Vice President of the Company in July 2017.

REPORT OF THE DIRECTORS

The Board present their report and the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

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

EVENTS AFTER THE REPORTING PERIOD

The Group has no significant event subsequent to the reporting period.

KEY PERFORMANCE INDICATORS

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

In 2018, Beijing Gas continued to actively work with Beijing Municipal Government for the implementation of Clean Air Action Plan by committing itself in the development of clean resources and improving the ecological environment, and supporting the Government in winning the "Blue-Sky Defense War". In the implementation of Clean Air Action Plan, Beijing Gas completed the conversion of rural "coal to gas" development of about 24,600 households in 57 villages, built 705 kilometers of pipeline network, 89 pressure regulating stations (tanks) and 3 LNG stations, totaling 92 stations.

The solid waste treatment business segment of the Company continued to improve its technology and management so as to increase the waste treatment efficiency and reduce emissions in the projects and daily operations. At the end of 2018, the solid waste treatment business segment of the Company had realised a waste incineration and power generation integrated treatment capacity of 25,288 tons/day and hazardous waste treatment capacity of 115,000 tons/year.

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

RELATIONSHIP WITH STAKEHOLDERS

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

REPORT OF THE DIRECTORS

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

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

REPORT OF THE DIRECTORS

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 58 to 203.

An interim dividend of HK32 cents per ordinary share was paid on 23 October 2018. The Board recommended the payment of a final dividend of HK73 cents per share for the year ended 31 December 2018 payable to Shareholders on the register of members of the Company on 3 July 2019. Subject to the approval of Shareholders at the 2019 AGM, the final dividend will be paid on 18 July 2019.

2019 AGM

The 2019 AGM will be held on Tuesday, 11 June 2019. The notice of the 2019 AGM, which constitutes part of the circular to Shareholders, will be sent to all Shareholders separately and will be published on the Company's website (www.behl.com.hk) and the HKSE's website (www.hkexnews.hk).

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining Shareholders' eligibility to attend and vote at the 2019 AGM, and entitlement to the final dividend, the register of members will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the 2019 AGM:

Latest time to lodge transfer documents for registration	4:30 pm on Tuesday, 4 June 2019
Closure of register of members	Wednesday, 5 June 2019 to Tuesday, 11 June 2019 (both dates inclusive)
2019 AGM	Tuesday, 11 June 2019

CLOSURE OF REGISTER OF MEMBERS *(Continued)*

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30 pm on Wednesday, 26 June 2019
Closure of register of members	Thursday, 27 June 2019 to Wednesday, 3 July 2019 (both dates inclusive)
Record date	Wednesday, 3 July 2019

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2019 AGM, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

EMPLOYEES

At 31 December 2018, the Group had approximately 43,000 employees. The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Group's employee remuneration policy and package are periodically reviewed by the management. Apart from pension funds, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and equity of the Group for the last five financial years as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2017 is set out on pages 204 to 205. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the year, together with the reasons therefor, are set out in notes 32 and 33 to the financial statements, respectively.

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provisions of part 6 of the Companies Ordinance amounted to HK$1,015,126,000 (2017: HK$1,025,283,000).

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

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

DIRECTORS

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

Executive Directors

HOU Zibo
LI Yongcheng
ZHAO Xiaodong
E Meng
JIANG Xinhao
TAM Chun Fai

Independent Non-executive Directors

WU Jiesi
LAM Hoi Ham
SZE Chi Ching
YU Sun Say
MA She

REPORT OF THE DIRECTORS

DIRECTORS OF SUBSIDIARIES

The names of directors who have served on the boards of the principal subsidiaries of the Company during the financial year ended 31 December 2018 or during the period from 1 January 2019 up to the date of this Report are available on the Company's website (www.behl.com.hk).

BOARD CHANGES AND CHANGES IN DIRECTORS' INFORMATION

During the year under review and up to the date of this Report, there was no change to the Board.

In accordance with articles 98 and 107 of the Articles of Association and the recommendation of the Board, Mr. Li Yongcherg, Mr. E Meng, Mr. Jiang Xinhao and Dr. Yu Sun Say will retire and, being eligible, will offer themselves for re-election at the 2019 AGM.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTOR'S SERVICE CONTRACT

No Director proposed for re-election at the 2019 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

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

Further details of the Remuneration Committee are set out in the Corporate Governance Report on pages 38 to 51 of this Report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS & CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

At 31 December 2018, the interests and short positions of the Directors and the Chief Executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the HKSE pursuant to the Model Code, were as follows:

(A) LONG POSITIONS IN SHARES OF THE COMPANY

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

(B) LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

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

(C) LONG POSITIONS IN SHARES OF ASSOCIATED CORPORATIONS

Director	Associated corporation	Number of ordinary shares directly beneficially owned	Percentage of the associated corporations' total number of issued shares
E Meng	BE Environment@	601,000	0.040%
Tam Chun Fai	BE Environment@	50,000	0.003%
Yu Sun Say	BE Water@	100,000	0.001%

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

(D) LONG POSITIONS IN UNDERLYING SHARES OF ASSOCIATED CORPORATIONS

Long positions in share options in BE Environment[@] (a subsidiary of the Company):

	Number of share options directly beneficially owned							
Director	At 1 January 2018	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2018	Share options granted on (year/month/day)	Exercise period (year/month/day)	Exercise price per share (HK$)
E Meng	6,770,000	–	–	–	6,770,000	2011/06/21	2011/06/21 – 2021/06/20	1.25
	6,770,000				6,770,000			

@ As at 31 December 2018, all interests in these associated corporations owned by the Company are indirectly held.

Save as disclosed above, as at 31 December 2018, none of the Directors or the Chief Executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the HKSE pursuant to the Model Code.

SHARE OPTION SCHEME

The Company currently does not have any share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

At 31 December 2018, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long Positions:

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

Notes:

(a) The interest disclosed includes the shares owned by MOL. MOL is a wholly-owned subsidiary of BEIL. Accordingly, BEIL is deemed to be interested in the shares owned by MOL.

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

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Short Positions:

	Number of ordinary shares held, capacity and nature of interest			
Name	**Directly beneficially owned**	**Others**	**Total**	**Percentage of the Company's total number of issued shares**
Shine Power	1,465,677	–	1,465,677	0.12%
BE Group BVI	–	1,465,677*	1,465,677	0.12%
BE Group	–	1,465,677*	1,465,677	0.12%

* The interests disclosed include the shares owned by Shine Power. Shine Power is a direct wholly-owned subsidiary of BE Group BVI, and is also an indirect wholly-owned subsidiary of BE Group. Accordingly, each of BE Group BVI and BE Group is deemed to be interested in the shares owned by Shine Power.

Save as disclosed above, as at 31 December 2018, no person, other than the Directors, whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions and continuing connected transactions undertaken by the Group during the year are set out in note 49 to the financial statements.

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

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

SPECIFIC PERFORMANCE OBLIGATIONS OF THE CONTROLLING SHAREHOLDERS

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

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

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

1. If BE Group does not or ceases to own, directly or indirectly, at least 40% or 50%, where applicable, of the beneficial interest of the Company; and

2. If BE Group ceases to be controlled and supervised by the People's Government of Beijing Municipality.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

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

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

MANAGEMENT CONTRACTS

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during 2018.

DONATIONS

The Group's charitable donations during the year were approximately HK$3,000,000.

EQUITY-LINKED AGREEMENTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the 2019 AGM.

ON BEHALF OF THE BOARD

Hou Zibo
Chairman & CEO

Hong Kong
28 March 2019

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Save as disclosed below, the Board believe that during the year ended 31 December 2018, the Company has complied with the code provisions (the "Code Provisions") as set out in Appendix 14 to the Listing Rules.

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

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

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

AMENDMENTS TO THE TERMS OF REFERENCE OF AUDIT COMMITTEE AND TERMS OF REFERENCE OF NOMINATION COMMITTEE, AND ADOPTION OF BOARD DIVERSITY POLICY, NOMINATION POLICY AND DIVIDEND POLICY

The HKSE has made certain amendments to the Listing Rules (including the Corporate Governance Code) in relation to corporate governance of issuers. The relevant amendments took effect on 1 January 2019. In this regard, the Company has made and the Board has approved relevant amendments to the Terms of Reference for the Audit Committee and the Terms of Reference for the Nomination Committee, and adopted a Board Diversity Policy, Nomination Policy and Dividend Policy accordingly. The Board considered that the amended versions of the Terms of Reference for the Audit Committee and the Terms of Reference for the Nomination Committee, and the newly adopted Board Diversity Policy, Nomination Policy and Dividend Policy comply with the Listing Rules as amended.

In accordance with the Listing Rules, the revised Terms of Reference for the Audit Committee and the Terms of Reference for the Nomination Committee have been uploaded on the website of the HKSE at www.hkexnews.hk and the website of the Company at www.behl.com.hk, and the newly adopted Board Diversity Policy, Nomination Policy and Dividend Policy are summarised or disclosed in the corporate governance report included in this Report respectively.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for securities transactions by the Directors. All the Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2018.

THE BOARD

Board Diversity Policy

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

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

Composition and Role

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

THE BOARD *(Continued)*

Composition and Role *(Continued)*

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

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

Name		Attendance^					
		Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Investment Committee Meeting	Annual General Meeting
Executive Directors							
Hou Zibo	*(Chairman & CEO)*	2/2		1/1	1/1	0/0	1/1
Li Yongcheng	*(Vice Chairman)*	2/2					
Zhao Xiaodong	*(Vice Chairman)*	2/2					
E Meng	*(Executive Vice President)*	2/2					
Jiang Xinhao	*(Vice President)*	2/2				0/0	
Tam Chun Fai	*(CFO & Company Secretary)*	2/2					1/1
Independent Non-executive Directors							
Wu Jiesi		1/2	2/2	0/1			0/1
Lam Hoi Ham		2/2	2/2	1/1	1/1	0/0	1/1
Sze Chi Ching		1/2					1/1
Yu Sun Say		2/2				0/0	0/1
Ma She		1/2	2/2		1/1	0/0	0/1

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

THE BOARD *(Continued)*

Directors' Training

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

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

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

Name	Attend Seminars/ Read Training Materials
Executive Directors	
Hou Zibo	✓
Li Yongcheng	✓
Zhao Xiaodong	✓
E Meng	✓
Jiang Xinhao	✓
Tam Chun Fai	✓

THE BOARD *(Continued)*

Directors' Training *(Continued)*

Name	Attend Seminars/ Read Training Materials
Independent Non-executive Directors	
Wu Jiesi	✓
Lam Hoi Ham	✓
Sze Chi Ching	✓
Yu Sun Say	✓
Ma She	✓

Non-executive Directors

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

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

Name	Term of Appointment
Wu Jiesi	3 years from 1 April 2018
Lam Hoi Ham	3 years from 1 April 2018
Sze Chi Ching	3 years from 28 March 2019
Yu Sun Say	3 years from 31 March 2017
Ma She	3 years from 29 December 2016

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

THE BOARD *(Continued)*

Corporate Governance Functions

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

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and Senior Management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and

(e) to review the Company's compliance with the Code Provisions.

AUDIT COMMITTEE

The current members of the Audit Committee are:

Mr. Lam Hoi Ham – Committee Chairman
Mr. Wu Jiesi
Mr. Ma She

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

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

REMUNERATION COMMITTEE

The current members of the Remuneration Committee are:

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

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

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

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

NOMINATION COMMITTEE

The current members of the Nomination Committee are:

Mr. Hou Zibo – Committee Chairman
Mr. Lam Hoi Ham
Mr. Ma She

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

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

Nomination Criteria

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

(a) Skills and Experience: The candidate should possess the skills, knowledge and experience which are relevant to the business of the Group.

(b) Diversity: Candidates should be considered on merit and against objective criteria, with due regard to the diversity perspectives set out in the Board Diversity Policy of the Company and the balance of skills and experience in board composition.

(c) Availability: The candidate shall be willing to devote adequate time for discharging the duties of a member of the Board and other director position.

(d) Character and integrity: The candidate must satisfy the Board and HKSE that he/she is a person of integrity and honesty, and has the character, experience and integrity commensurate with the relevant position as a Director.

(e) Independence: The candidate to be nominated as an Independent Non-executive Director must satisfy the independence criteria set out in Rule 3.13 of the Listing Rules.

NOMINATION COMMITTEE *(Continued)*

Nomination Procedures:

(1) If the Board determines that an additional or replacement Director is required, the Nomination Committee may take such measures that it considers appropriate in connection with its identification and evaluation of a candidate.

(2) The Nomination Committee may propose to the Board a candidate recommended or offered for nomination by a Shareholder as a nominee for election to the Board.

(3) Upon considering a candidate suitable for the position of Director, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment.

(4) On making recommendation, the Nomination Committee may submit the candidate's personal profile to the Board for consideration. The Board may appoint the candidate as Director to fill a casual vacancy or as an addition to the Board or recommend such candidate to Shareholders for election or re-election (where appropriate) at the general meeting.

INVESTMENT COMMITTEE

The current members of the Investment Committee are:

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

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

AUDITORS' REMUNERATION

During the year ended 31 December 2018, fees paid and payable to the Company's external auditors for audit services were approximately HK$15.28 million; fees paid and payable for non-audit services were approximately HK$4.87 million, which included fees for an agreed-upon procedures engagement in connection with the Group's interim financial report and tax compliance services etc.

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledged responsibility for reviewing the accounts of the Company prepared by the Executive Directors for the year ended 31 December 2018 and ensuring the accounts are prepared in accordance with the HKFRSs. A statement by the auditors about their reporting responsibilities is contained in the Independent Auditor's Report.

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

Main Features of the Risk Management and Internal Control Systems

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

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

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

Process Used to Identify, Evaluate and Manage Significant Risks

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

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

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

The Internal Audit Department has conducted a review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2018 and reported the review results to the Audit Committee.

The Board has supervised the management in the design, implementation and monitoring of the risk management and internal control systems and evaluated the effectiveness of the Group's risk management and internal control systems during 2018. The yearly review covers all material controls, including financial, operational and compliance controls and the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting, internal audit and financial reporting functions.

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

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

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

COMPANY SECRETARY

The Executive Director and Chief Financial Officer, Mr. Tam Chun Fai, has been the Company Secretary of the Company since 1997. During the year 2018, Mr. Tam took no less than 15 hours of relevant professional training as required by Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

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

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

The written requisition:

1. must state the general nature of the business to be dealt with at the meeting;

2. may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;

3. may consist of several documents in like form;

4. may be sent to the Company in hard copy form or in electronic form; and

5. must be authenticated by the person or persons making it.

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

To Make Enquiries to the Board

1. Shareholders should direct their questions about their shareholdings to the Company's share registrar.

2. Enquiries made to the Board may be deposited at the Company's registered office for the attention of the company secretary.

SHAREHOLDERS' RIGHTS *(Continued)*

To Put forward Proposals at an AGM

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

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

2. represent at least 50 Shareholders who have a right to vote on the resolution at the AGM to which the requests relate.

The written requisition:

1. may be sent to the Company in hard copy form or in electronic form;

2. must identify the resolution of which notice is to be given;

3. must be authenticated by the person or persons making it; and

4. must be received by the Company not later than:

   (i) 6 weeks before the AGM to which the requests relate; or

   (ii) if later, the time at which notice is given of that meeting.

SHAREHOLDERS' RIGHTS *(Continued)*

Circulating a Statement at an AGM or at a General Meeting

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

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

2. at least 50 Shareholders who have a relevant right to vote.

The request –

1. may be sent in hard copy form or in electronic form to the Company's registered office;

2. must identify the statement to be circulated;

3. must be authenticated by the person or persons making it; and

4. must be received by the Company at least 7 days before the meeting to which it relates.

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

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

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2018 there was no significant change in the Company's constitutional documents.

DIVIDEND POLICY

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

INDEPENDENT AUDITOR'S REPORT

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 58 to 203, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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	
As at 31 December 2018, the goodwill carried in the Group's financial statements was approximately HK$16,553 million. Management is required to perform a test on goodwill for impairment at least on an annual basis. This test is largely based on management expectations, assumptions and estimates of future results of the cash-generating units to which the goodwill has been allocated. The assumptions are affected by expectations of future market or economic conditions. The impairment test is based on the comparison between the recoverable amounts of the relevant cash-generating units, and their respective carrying amounts. Given the complexity and judgemental nature of the impairment testing, management engaged an independent external valuer to prepare the valuation models to assist with the impairment assessment. Accordingly, this is identified as a key audit matter. The related disclosures are included in notes 3 and 16 to the financial statements.	We assessed the competency and objectivity of the independent external valuer engaged by management and involved our internal valuation experts to support us in our audit work. We evaluated management expectations, assumptions and estimates of future results of the cash-generating units used in the valuation models by (i) testing the assumptions used in the cash flow forecasts; (ii) comparing the historical forecast with actual results; and (iii) obtaining corroborative evidence to support the growth assumptions. We carried out audit procedures on management's sensitivity calculations. We also assessed the adequacy of the disclosures for the impairment testing in the financial statements, specifically the key assumptions with the most significant effect on the determination of the recoverable amounts, such as the discount rate and growth rate.

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

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

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

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

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	**67,764,770**	57,508,025
Cost of sales		**(57,201,105)**	(48,145,142)
Gross profit		**10,563,665**	9,362,883
Gains on deemed disposal of partial interests in associates	20(a)	**549,014**	10,410
Other income and gains, net	5	**1,364,969**	1,487,837
Selling and distribution expenses		**(2,237,692)**	(2,295,994)
Administrative expenses		**(4,784,957)**	(4,370,235)
Other operating expenses, net		**(1,041,535)**	(420,512)
		4,413,464	3,774,389
Finance costs	7	**(1,977,744)**	(1,596,534)
Share of profits and losses of:			
Joint ventures		**(6,715)**	26,609
Associates	20(b)	**6,666,446**	5,827,944
PROFIT BEFORE TAX	6	**9,095,451**	8,032,408
Income tax	10	**(1,158,810)**	(845,131)
PROFIT FOR THE YEAR		**7,936,641**	7,187,277
ATTRIBUTABLE TO:			
Shareholders of the Company		**7,577,383**	6,880,378
Non-controlling interests		**359,258**	306,899
		7,936,641	7,187,277
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
Basic and diluted	12	**HK$6.00**	HK$5.45

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
PROFIT FOR THE YEAR		**7,936,641**	7,187,277
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**–**	754,529
Income tax effect		**–**	(214,084)
		–	540,445
Exchange differences:			
Exchange differences on translation of foreign operations		**(2,556,366)**	3,861,933
Reclassification adjustments for a foreign operation disposed of during the year	*44*	**–**	(15,530)
		(2,556,366)	3,846,403
Share of other comprehensive income/(loss) of associates		**(1,797,926)**	748,953
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**(4,354,292)**	5,135,801
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Defined benefit plans:			
Actuarial gain		**113,955**	115,148
Income tax effect		**(32,007)**	(28,135)
		81,948	87,013
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**(930,639)**	–
Income tax effect		**222,319**	–
		(708,320)	–
Share of other comprehensive income of associates		**83,019**	16,020
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		**(543,353)**	103,033

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 *HK$'000*	2017 *HK$'000*
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**(4,897,645)**	5,238,834
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,038,996**	12,426,111
ATTRIBUTABLE TO:		
Shareholders of the Company	**3,054,966**	11,293,553
Non-controlling interests	**(15,970)**	1,132,558
	3,038,996	12,426,111

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	13	**51,717,563**	51,728,816
Investment properties	14	**1,147,395**	1,184,287
Prepaid land premiums	15	**1,469,087**	1,622,278
Goodwill	16	**16,553,016**	16,910,280
Operating concessions	17	**2,981,150**	3,118,641
Other intangible assets	18	**3,272,196**	3,637,627
Investments in joint ventures	19	**358,475**	344,850
Investments in associates	20	**53,375,575**	47,982,745
Available-for-sale investments	23	**–**	6,432,085
Equity investments designated at fair value through other comprehensive income	23	**2,908,338**	–
Receivables under service concession arrangements	17	**1,807,792**	1,895,320
Receivables under finance lease	21	**846,572**	955,843
Prepayments, other receivables and other assets	26	**1,538,539**	901,389
Debt component of convertible bond receivables	22	**–**	98,682
Derivative component of convertible bond receivables	22	**–**	40,376
Financial asset at fair value through profit or loss	28	**2,301,452**	–
Deferred tax assets	40	**1,423,522**	1,293,072
Total non-current assets		**141,700,672**	138,146,291
Current assets:			
Prepaid land premiums	15	**38,342**	38,747
Inventories	24	**5,138,624**	5,294,480
Receivables under finance lease	21	**81,260**	90,421
Receivables under service concession arrangements	17	**123,605**	85,492
Trade and bills receivables	25	**5,216,897**	4,013,063
Prepayments, other receivables and other assets	26	**3,611,879**	4,214,839
Other taxes recoverable		**609,522**	630,797
Restricted cash and pledged deposits	29	**39,983**	43,311
Cash and cash equivalents	30	**17,935,496**	17,841,609
		32,795,608	32,252,759
Investment in an associate classified as held for sale	31	**–**	1,149,968
Total current assets		**32,795,608**	33,402,727
TOTAL ASSETS		**174,496,280**	171,549,018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	*32*	**30,401,883**	30,401,883
Reserves	*34(a)*	**39,270,734**	37,166,167
		69,672,617	67,568,050
Non-controlling interests		**11,342,755**	11,604,955
TOTAL EQUITY		**81,015,372**	79,173,005
Non-current liabilities:			
Bank and other borrowings	*35*	**26,958,501**	22,684,864
Guaranteed bonds, notes and senior notes	*36*	**31,024,807**	31,410,505
Defined benefit plans	*37*	**2,011,333**	1,852,033
Provision for onerous contracts and major overhauls	*38*	**341,974**	332,987
Other non-current liabilities	*39*	**1,708,842**	1,550,980
Deferred tax liabilities	*40*	**2,250,422**	2,594,476
Total non-current liabilities		**64,295,879**	60,425,845

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Current liabilities:			
Trade and bills payables	*41*	**4,504,712**	4,121,974
Other payables, accruals and contract liabilities	*42*	**21,413,851**	20,023,648
Provision for onerous contracts	*38*	**50,944**	53,156
Income tax payables		**1,227,743**	1,077,325
Other taxes payables		**448,372**	282,326
Bank and other borrowings	*35*	**1,539,407**	6,391,739
Total current liabilities		**29,185,029**	31,950,168
TOTAL LIABILITIES		**93,480,908**	92,376,013
TOTAL EQUITY AND LIABILITIES		**174,496,280**	171,549,018

Hou Zibo
Director

Tam Chun Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Notes	Attributable to shareholders of the Company										
		Share capital HK$'000	Capital reserve HK$'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 2017		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
Profit for the year		–	–	–	–	–	–	–	6,880,378	6,880,378	306,899	7,187,277
Other comprehensive income/(loss) for the year:												
Available-for-sale investments:												
Changes in fair value		–	–	754,529	–	–	–	–	–	754,529	–	754,529
Income tax effect	*40*	–	–	(214,084)	–	–	–	–	–	(214,084)	–	(214,084)
Exchange differences:												
Translation of foreign operations		–	–	–	–	–	3,036,217	–	–	3,036,217	825,716	3,861,933
Reclassification adjustments for a foreign operation disposed of during the year	*44*	–	–	–	–	–	(15,530)	–	–	(15,530)	–	(15,530)
Defined benefit plans:												
Actuarial gains	*37(b)*	–	–	–	–	115,229	–	–	–	115,229	(81)	115,148
Income tax effect	*40*	–	–	–	–	(28,159)	–	–	–	(28,159)	24	(28,135)
Share of other comprehensive income of associates		–	–	–	8,452	7,568	748,953	–	–	764,973	–	764,973
Total comprehensive income for the year		–	–	540,445	8,452	94,638	3,769,640	–	6,880,378	11,293,553	1,132,558	12,426,111
Capital contribution from non-controlling equity holders		–	–	–	–	–	–	–	–	–	64,099	64,099
Shares repurchased	*32*	–	–	–	–	–	–	–	(3,733)	(3,733)	–	(3,733)
Disposal of subsidiaries	*44*	–	–	–	–	–	–	–	–	–	(30,230)	(30,230)
Deemed disposal of partial interest in an associate		–	–	–	–	–	4,993	–	–	4,993	–	4,993
Share of reserves of associates		–	151,045	–	–	–	–	–	–	151,045	–	151,045
Final 2016 dividend		–	–	–	–	–	–	–	(820,400)	(820,400)	–	(820,400)
Interim 2017 dividend	*11*	–	–	–	–	–	–	–	(378,616)	(378,616)	–	(378,616)
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	(279,190)	(279,190)
Transfer to PRC reserve funds		–	–	–	–	–	–	1,073,303	(1,073,303)	–	–	–
At 31 December 2017		30,401,883	967,094	546,304	84,051	(166,174)	964,337	9,853,215	24,917,340	67,568,050	11,604,955	79,173,005

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

		Attributable to shareholders of the Company										
	Notes	Share capital HK$'000	Capital reserve HK$'000	Fair value reserve of equity instruments at fair value through other comprehensive income/ 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 2018		30,401,883	967,094*	546,304*	84,051*	(166,174)*	964,337*	9,853,215*	24,917,340*	67,568,050	11,604,955	79,173,005
Profit for the year		–	–	–	–	–	–	–	7,577,383	7,577,383	359,258	7,936,641
Other comprehensive income/(loss) for the year:												
Equity investments designated at fair value through other comprehensive income:												
Changes in fair value		–	–	(930,639)	–	–	–	–	–	(930,639)	–	(930,639)
Income tax effect	*40*	–	–	222,319	–	–	–	–	–	222,319	–	222,319
Exchange differences:												
Translation of foreign operations		–	–	–	–	–	(2,180,210)	–	–	(2,180,210)	(376,156)	(2,556,366)
Defined benefit plans:												
Actuarial gains	*37(b)*	–	–	–	–	112,629	–	–	–	112,629	1,326	113,955
Income tax effect	*40*	–	–	–	–	(31,609)	–	–	–	(31,609)	(398)	(32,007)
Share of other comprehensive income/(loss) of associates		–	–	85,732	656	(3,369)	(1,797,926)	–	–	(1,714,907)	–	(1,714,907)
Total comprehensive income/(loss) for the year		–	–	(622,588)	656	77,651	(3,978,136)	–	7,577,383	3,054,966	(15,970)	3,038,996
Capital contribution from non-controlling equity holders		–	–	–	–	–	–	–	–	–	3,181	3,181
Acquisition of a subsidiary		–	–	–	–	–	–	–	–	–	47,593	47,593
Deemed disposal of partial interest in a subsidiary		–	–	–	–	–	–	–	–	–	(2,958)	(2,958)
Share of reserves of associates		–	311,654	–	–	–	–	–	–	311,654	–	311,654
Final 2017 dividend	*11*	–	–	–	–	–	–	–	(858,196)	(858,196)	–	(858,196)
Interim 2018 dividend	*11*	–	–	–	–	–	–	–	(403,857)	(403,857)	–	(403,857)
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	(294,046)	(294,046)
Transfer to PRC reserve funds		–	–	–	–	–	–	1,297,798	(1,297,798)	–	–	–
At 31 December 2018		30,401,883	1,278,748*	(76,284)*	84,707*	(88,523)*	(3,013,799)*	11,151,013*	29,934,872*	69,672,617	11,342,755	81,015,372

* *These reserve accounts comprise the consolidated reserves of HK$39,270,734,000 (2017: HK$37,166,167,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**9,095,451**	8,032,408
Adjustments for:			
Gains on deemed disposal of partial interests in associates	*20(a)*	**(549,014)**	(10,410)
Bank interest income	*5*	**(310,178)**	(276,492)
Transfer of assets from customers	*5*	**–**	(66,355)
Gain on disposal of subsidiaries	*5*	**–**	(14,389)
Gain on disposal of items of property, plant and equipment, net	*5*	**(13,469)**	(204,183)
Investment income from an equity investment designated at fair value through other comprehensive income	*5*	**(48,740)**	–
Investment income from a financial asset at fair value through profit or loss	*5*	**(249,624)**	(120,444)
Compensation income	*5*	**–**	(86,818)
Depreciation	*6*	**3,500,464**	3,042,029
Amortisation of prepaid land premiums	*6*	**38,609**	45,992
Amortisation of operating concessions	*6*	**122,425**	109,168
Amortisation of other intangible assets	*6*	**288,695**	305,450
Impairment of prepaid land premiums	*6*	**76,254**	–
Impairment of items of property, plant and equipment	*6*	**600,608**	244,220
Impairment of trade receivables, net	*6*	**85,298**	11,860
Impairment of other receivables, net	*6*	**70,926**	463
Reversal of provision for onerous contracts and major overhauls	*6*	**–**	(189,543)
Finance costs	*7*	**1,977,744**	1,596,534
Share of profits and losses of joint ventures and associates		**(6,659,731)**	(5,854,553)
Operating profit before working capital changes		**8,025,718**	6,564,937

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
Operating profit before working capital changes	**8,025,718**	6,564,937
Decrease/(increase) in inventories	**(63,288)**	24,529
Increase in receivables under service concession arrangements	**(33,360)**	(188,013)
Increase in trade and bills receivables	**(1,507,975)**	(38,807)
Decrease/(increase) in prepayments, other receivables and other assets	**(120,022)**	113,581
Increase in other taxes recoverable	**(3,671)**	(27,019)
Increase/(decrease) in trade and bills payables	**576,055**	(99,725)
Increase in other payables, accruals and contract liabilities	**2,224,208**	2,011,263
Increase in other taxes payable	**184,357**	10,435
Increase in defined benefit plans	**362,102**	170,374
Increase in other non-current liabilities	**569,256**	685,571
Increase in provision for major overhauls	**21,362**	5,178
Cash generated from operations	**10,234,742**	9,232,304
Mainland China income tax paid	**(1,104,211)**	(849,207)
Overseas income tax paid	**(108,105)**	(56,188)
Net cash flows from operating activities	**9,022,426**	8,326,909

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received from associates		**3,953,778**	5,644,372
Purchases of items of property, plant and equipment		**(7,150,966)**	(8,191,650)
Proceeds from disposal of items of property, plant and equipment		**125,763**	631,407
Receipt of governments grants for property, plant and equipment		**772,969**	–
Additions to prepaid land premiums		**(27,602)**	(82,413)
Additions to operating concessions		**(120,826)**	(412,693)
Additions to other intangible assets		**(61,378)**	(66,353)
Disposal of subsidiaries	*44*	**–**	(232,997)
Acquisition of a subsidiary		**58,166**	–
Acquisition of/increase in investments in joint ventures and associates		**(2,888,871)**	(9,031,334)
Decrease in amounts due from and loans to joint ventures and associates		**–**	97,122
Decrease/(increase) in time deposits with maturity of more than three months when acquired		**854,351**	(722,085)
Decrease in restricted cash and pledged deposits		**3,277**	15,481
Investment income received from an equity investment designated at fair value through other comprehensive income		**48,740**	–
Investment income received from a financial asset at fair value through profit or loss		**249,624**	120,444
Interest received		**310,178**	276,492
Net cash flows used in investing activities		**(3,872,797)**	(11,954,207)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		**3,181**	64,099
Repurchase of the Company's shares	*32*	**–**	(3,733)
Proceeds from issue of a guaranteed bond and a guaranteed senior note, net of issuance costs		**–**	10,977,334
New loans		**7,681,893**	13,286,131
Repayment of loans		**(7,878,971)**	(17,639,523)
Interest paid		**(1,988,560)**	(1,605,000)
Dividends paid		**(1,262,053)**	(1,199,016)
Dividends paid to non-controlling equity holders		**(294,046)**	(279,190)
Net cash flows from/(used in) financing activities		**(3,738,556)**	3,601,102

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,411,073**	(26,196)
Cash and cash equivalents at beginning of year		**16,959,763**	16,063,717
Effect of foreign exchange rate changes, net		**(461,705)**	922,242
CASH AND CASH EQUIVALENTS AT END OF YEAR		**17,909,131**	16,959,763
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances:			
Placed in banks	*30*	**9,623,477**	8,367,506
Placed in a financial institution	*30*	**464,658**	660,309
Time deposits:			
Placed in banks	*30*	**5,563,092**	6,667,674
Placed in a financial institution	*30*	**2,324,252**	2,189,431
Less: Restricted cash and pledged deposits	*30*	**(39,983)**	(43,311)
Cash and cash equivalents as stated in the consolidated statement of financial position		**17,935,496**	17,841,609
Less: Time deposits with maturity of more than three months when acquired		**(26,365)**	(881,846)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**17,909,131**	16,959,763

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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, the surveying and plotting of underground construction projects, the 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 sale 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 of the Company, the ultimate holding company is 北京控股集團有限公司 ("Beijing Enterprises Group"), which is a state-owned enterprise established in the PRC and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality (the "Beijing Municipal Government").

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about 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
Beijing Gas Group Company Limited ("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	RMB2,818,539,341	–	45.79†	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan")#	PRC/Mainland China	RMB250,000,000	–	22.93†	Production and sale of beer
燕京啤酒(包頭雪鹿)股份有限公司	PRC/Mainland China	RMB547,303,240	–	42.32†	Production and sale of beer
燕京啤酒(桂林漓泉)股份有限公司	PRC/Mainland China	RMB349,366,900	–	34.69†	Production and sale of beer
燕京啤酒(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	RMB577,120,200	–	43.16†	Production and sale of beer
新疆燕京啤酒有限公司	PRC/Mainland China	RMB683,650,000	–	45.79†	Production and sale of beer
燕京啤酒(衡陽)有限公司	PRC/Mainland China	RMB525,660,000	–	44.80†	Production and sale of beer
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
四川燕京啤酒有限公司	PRC/Mainland China	RMB480,000,000	–	45.79†	Production and sale of beer
北京燕京啤酒(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	RMB809,882,100	–	58.23	Production and sale of beer

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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
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
北京高安屯垃圾焚燒有限公司	PRC/Mainland China	RMB274,000,000	–	42.78†	Solid waste treatment operation
北控環境再生能源(張家港)有限公司	PRC/Mainland China	RMB282,000,000	–	50.39	Solid waste treatment operation
Beijing Enterprises Environment Group Limited ("BEEGL")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	EUR1,000,000	–	100	Solid waste treatment business
EEW Energy from Waste Stapelfeld GmbH	Germany	EUR50,000	–	100	Solid waste treatment business
EEW Energy from Waste Heringen GmbH	Germany	EUR25,000	–	100	Solid waste treatment business
MHKW Rothensee GmbH	Germany	EUR50,000	–	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.*

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

2.1 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, (ii) derivative financial instruments and (iii) equity investments and non-equity investments (2017: certain available-for-sale investments) which have been measured at fair value. Investment in an associate classified as held for sale which is 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 2018. 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.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

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

Except for the amendments to HKFRS 4 and *Annual Improvements to HKFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 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 an 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 amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The adoption of HKFRS 9 has had no significant financial impact to the Group. Therefore, the comparative information was not restated and continued to be reported under HKAS 39.

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

(b) *(Continued)*

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement				HKFRS 9 measurement	
	Notes	Category	Amount HK$'000	Re-classification HK$'000	ECLs HK$'000	Amount HK$'000	Category
Financial assets							
Equity investments designated at fair value through other comprehensive income		N/A	–	4,031,999	–	4,031,999	FVOCI[1] (equity)
From: Available-for-sale investments	*(i)*			4,031,999	–		
Available-for-sale investments		AFS[2]	6,432,085	(6,432,085)	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	*(i)*			(4,031,999)	–		
To: Financial asset at fair value through profit or loss	*(ii)*			(2,400,086)	–		
Receivables under service concession arrangements		L&R[3]	1,980,812	–	–	1,980,812	AC[4]
Receivables under finance lease		L&R	1,046,264	–	–	1,046,264	AC
Debt component of convertible bond receivables		AC	98,682	(98,682)	–	–	N/A
Derivative component of convertible bond receivables		FVPL[5]	40,376	(40,376)	–	–	N/A
Trade and bills receivables	*(iii)*	L&R	4,013,063	–	–	4,013,063	AC
Financial assets included in prepayments, other receivables and other assets		L&R	4,232,766	–	–	4,232,766	AC
Financial assets at fair value through profit or loss		FVPL	–	2,539,144	–	2,539,144	FVPL (mandatory)
From: Available-for-sale investments	*(ii)*			2,400,086	–		
From: Debt component of convertible bond receivables				98,682	–		
From: Derivative component of convertible bond receivables				40,376	–		
Restricted cash and pledged deposits		L&R	43,311	–	–	43,311	AC
Cash and cash equivalents		L&R	17,841,609	–	–	17,841,609	AC
			35,728,968	–	–	35,728,968	

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

(b) *(Continued)*

Classification and measurement *(Continued)*

	HKAS 39 measurement				HKFRS 9 measurement	
	Category	Amount	Re-classification	ECLs	Amount	Category
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	
Other assets						
Contract assets included in prepayments, other receivables and other assets		39,629	–	–	39,629	
Deferred tax assets		1,293,072	–	–	1,293,072	
Total other assets		1,332,701	–	–	1,332,701	
Total assets		171,549,018	–	–	171,549,018	
Financial liabilities						
Trade and bills payables	AC	4,121,974	–	–	4,121,974	AC
Financial liabilities included in other payables, accruals and contract liabilities	AC	12,633,270	–	–	12,633,270	AC
Guaranteed bonds, notes and senior notes	AC	31,410,505	–	–	31,410,505	AC
Bank and other borrowings	AC	29,076,603	–	–	29,076,603	AC
		77,242,352	–	–	77,242,352	
Other liabilities						
Contract liabilities included in other payables, accruals and contract liabilities		653,635	–	–	653,635	
Deferred tax liabilities		2,594,476	–	–	2,594,476	
Total other liabilities		3,248,111	–	–	3,248,111	
Total liabilities		92,376,013	–	–	92,376,013	

1 *FVOCI: Financial assets at fair value through other comprehensive income*
2 *AFS: Available-for-sale investments*
3 *L&R: Loans and receivables*
4 *AC: Financial assets or financial liabilities at amortised cost*
5 *FVPL: Financial assets at fair value through profit or loss*

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

(b) *(Continued)*

Classification and measurement *(Continued)*

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments designated at fair value through other comprehensive income.

(ii) The Group has classified one of its unlisted investments previously classified as available-for-sale investments as financial asset measured at fair value through profit or loss as it was mandatorily required.

(iii) The carrying amounts of the trade and bills receivables under the column "HKAS 39 measurement – Amount" represents the amounts after impairment provision.

Impairment and impact on reserves and retained profits

The adoption of HKFRS 9 has had no significant impact on the opening impairment allowances under HKAS 39, and hence no transitional impact on reserves and retained profits of the Group.

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. 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 disclosures are included in notes 3 and 4 to these financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018. The adoption of HKFRS 15 has had no significant impact on the timing of revenue recognition and therefore, the comparative information was not restated and continued to be reported under HKAS 11, HKAS 18 and related interpretations.

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

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

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 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC) – Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 *Effective for annual periods beginning on or after 1 January 2019*
2 *Effective for annual periods beginning on or after 1 January 2020*
3 *Effective for annual periods beginning on or after 1 January 2021*
4 *No mandatory effective date yet determined but available for adoption*

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

(a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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

(b) 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 adoption now.

(c) 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 elective 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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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.

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

(c) *(Continued)*

Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparative information. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of approximately HK$478 million and lease liabilities of approximately HK$478 million will be recognised at 1 January 2019.

(d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

(e) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

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

(f) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

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.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of 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 holding company 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 impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to 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 the statement of profit or loss in the year 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 the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year 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)*

Non-current assets and disposal groups held for sale

Non-current assets classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

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.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the statement of 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 the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements

Consideration given by the grantor

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

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

If the Group is paid partly by a financial asset and partly by an intangible asset, 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 (applicable before 1 January 2018)" below or "Revenue recognition (applicable from 1 January 2018) – construction services" 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

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

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

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

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

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.

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") at initial recognition. 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 at initial recognition. Amortisation is provided on the straight-line basis over the contract period of 1 to 28 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Computer software

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

Research and development costs

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, deferred tax assets, financial assets, inventories, amounts due from contract customers and non-current assets 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 of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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 the statement of profit or loss in the period in which it arises in these expense categories consistent with the function of the impaired asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(Continued)*

Financial assets at amortised cost (debt instruments) (Continued)

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

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(Continued)*

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

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

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in 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.

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

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets of the Group are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial 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:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are equity investment 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 the statement of 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 the statement of 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 (applicable before 1 January 2018)" below.

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.

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 the statement of profit or loss. The loss arising from impairment is recognised as other operating expenses in the statement of profit or loss.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments that designated as available for sale. After initial recognition, available-for-sale financial 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 the statement of profit or loss in 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 the statement of profit or loss in other operating expenses. Dividends earned whilst holding the available-for-sale financial investments are reported as investment income and are recognised in the statement of profit or loss as other income and gains in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

Available-for-sale financial investments (Continued)

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 impairment losses.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(Continued)*

General approach

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(Continued)*

Simplified approach

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

For lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

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.

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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

Financial assets carried at amortised cost (Continued)

The carrying amount of the asset is reduced 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 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 the statement of profit or loss as other operating expenses.

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 the statement of profit or loss, is removed from the available-for-sale investment revaluation reserve and recognised in the statement of 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 the statement of profit or loss) is removed from the available-for-sale investment revaluation reserve and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

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.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, 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 the statement of 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 the statement of profit or loss.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018

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 estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Onerous contracts

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

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the statement of 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 the statement of 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 the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (applicable from 1 January 2018) *(Continued)*

Revenue from contracts with customers (Continued)

(a) Sale of piped natural gas

Revenue from the sale of piped natural gas is recognised at the point in time when the goods is consumed by the customer, generally on delivery of the goods.

(b) Sale of brewery products

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

(c) Construction services

Contract revenue comprises (i) the agreed contract amounts and appropriate amounts from variation orders, claims and incentive payments in respect of the construction services for comprehensive renovation projects and (ii) construction revenue recognised under Build-Operate-Transfer ("BOT") contracts.

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

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

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.

(d) Solid waste treatment service contracts

Revenue from the sale of electricity and steam is recognised at a point in time when the asset is transferred to the customer, generally on delivery of electricity and steam.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (applicable from 1 January 2018) *(Continued)*

Other income

Rental income is recognised on a time proportion basis over the lease terms.

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

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

Revenue recognition (applicable before 1 January 2018)

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 (applicable before 1 January 2018)" below;

(c) from the rendering of services, on the percentage-of-completion basis, as further explained in the accounting policy for "Contracts for services (applicable before 1 January 2018)" below;

(d) rental income, on a time proportion basis over the lease terms;

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

(f) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Construction contracts (applicable before 1 January 2018)

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 (applicable before 1 January 2018)

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.

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 Group's operations. 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 the statement of 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, 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 profit or loss so as to spread the costs over the average service lives of the relevant employees in accordance with the actuarial report which contains valuation of the obligations for the year. These obligations are measured at the present value of the estimated future cash outflows. Actuarial gains and losses, which are remeasurements arising from defined benefit 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 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. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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

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

The functional currencies of certain Mainland China and overseas subsidiaries, joint ventures and associates are currencies other than 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 the statement of 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. Proposed final dividends are disclosed in the notes to the financial statements.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less costs of disposal of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating 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 2018 was HK$16,553,016,000 (2017: HK$16,910,280,000), details of which are set out in note 16 to the financial statements.

Estimate of gas consumption

Determination of the revenue generated from 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 billed volume from the latest meter reading period, adjusted by the location and nature of customers.

The actual consumption could deviate from those estimates.

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

Associate

The Group regards Beijing Enterprises Water Group Limited ("BE Water", an entity listed on the Hong Kong Stock Exchange with its 42.43% equity interest held by the Group as at 31 December 2018) as an associate. In determining whether the Group has control over BE Water, the Group has taken into account its effective influence it may exercise over the decisions of BE Water's board of directors, including the voting rights held by the Group, the structure of the board of directors and senior management of BE Water and the expertise of directors designated by other shareholders. In the opinion of the Company's directors, the Group did not have the sufficient ability to exercise power to control BE Water throughout the year ended 31 December 2018 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 of disposal and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. The carrying amounts of property, plant and equipment and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2018 were HK$51,717,563,000 (2017: HK$51,728,816,000) and HK$6,253,346,000 (2017: HK$6,756,268,000), respectively, details of which are set out in notes 13, 17 and 18 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, the surveying and plotting of underground construction projects, 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 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 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 2018

	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 *(note 5)*	48,648,824	12,366,723	–	6,749,223	–	–	67,764,770
Cost of sales	(43,509,373)	(8,623,462)	–	(5,068,270)	–	–	(57,201,105)
Gross profit	5,139,451	3,743,261	–	1,680,953	–	–	10,563,665
Profit from operating activities	2,959,194	398,872	–	816,268	239,130	–	4,413,464
Finance costs	(310,143)	(14,879)	–	(149,540)	(1,503,182)	–	(1,977,744)
Share of profits and losses of:							
Joint ventures	(6,780)	–	–	65	–	–	(6,715)
Associates	4,705,596	25,718	1,897,158	37,974	–	–	6,666,446
Profit/(loss) before tax	7,347,867	409,711	1,897,158	704,767	(1,264,052)	–	9,095,451
Income tax	(483,341)	(187,781)	–	(478,526)	(9,162)	–	(1,158,810)
Profit/(loss) for the year	6,864,526	221,930	1,897,158	226,241	(1,273,214)	–	7,936,641
Segment profit/(loss) attributable to shareholders of the Company	6,833,039	13,425	1,897,158	107,011	(1,273,250)	–	7,577,383
Segment assets	101,546,818	20,854,542	11,272,105	32,975,497	15,759,422	(7,912,104)	174,496,280
Segment liabilities	31,508,724	6,399,511	–	16,225,400	47,259,377	(7,912,104)	93,480,908
Other segment information:							
Interest income	100,734	32,567	–	119,019	57,858	–	310,178
Depreciation	1,800,217	1,013,253	–	680,734	6,260	–	3,500,464
Amortisation of operating concessions	–	–	–	122,425	–	–	122,425
Amortisation of other intangible assets	51,064	–	–	237,631	–	–	288,695
Impairment against segment assets, net*	144,385	4,112	–	684,589	–	–	833,086
Investments in joint ventures	317,829	–	–	33,994	6,652	–	358,475
Investments in associates	40,842,071	294,353	11,223,509	82,551	933,091	–	53,375,575
Capital expenditure**	4,605,993	612,679	–	1,348,402	6,133	–	6,573,207

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2017

	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	39,891,172	11,414,301	–	6,202,552	–	–	57,508,025
Cost of sales	(35,355,518)	(8,161,920)	–	(4,627,704)	–	–	(48,145,142)
Gross profit	4,535,654	3,252,381	–	1,574,848	–	–	9,362,883
Profit/(loss) from operating activities	2,497,943	257,871	–	1,133,313	(114,738)	–	3,774,389
Finance costs	(118,737)	(23,558)	–	(212,822)	(1,241,417)	–	(1,596,534)
Share of profits and losses of:							
Joint ventures	25,917	–	–	692	–	–	26,609
Associates	4,141,348	25,414	1,616,592	44,590	–	–	5,827,944
Profit/(loss) before tax	6,546,471	259,727	1,616,592	965,773	(1,356,155)	–	8,032,408
Income tax	(365,757)	(177,603)	–	(288,011)	(13,760)	–	(845,131)
Profit/(loss) for the year	6,180,714	82,124	1,616,592	677,762	(1,369,915)	–	7,187,277
Segment profit/(loss) attributable to shareholders of the Company	6,141,048	17,525	1,616,592	464,883	(1,359,670)	–	6,880,378
Segment assets	96,596,006	22,244,581	9,500,514	35,914,563	15,502,155	(8,208,801)	171,549,018
Segment liabilities	29,959,651	7,254,862	–	17,120,199	46,250,102	(8,208,801)	92,376,013
Other segment information:							
Reversal of provision for onerous contracts and major overhauls	–	–	–	189,543	–	–	189,543
Interest income	98,757	19,866	–	105,789	52,080	–	276,492
Depreciation	1,399,196	949,143	–	674,454	19,236	–	3,042,029
Amortisation of operating concessions	–	–	–	109,168	–	–	109,168
Amortisation of other intangible assets	38,134	–	–	267,316	–	–	305,450
Impairment/(reversal of impairment) against segment assets, net*	(1,025)	4,807	–	252,761	–	–	256,543
Investments in joint ventures	300,931	–	–	37,332	6,587	–	344,850
Investments in associates	37,231,533	299,232	9,447,574	75,628	928,778	–	47,982,745
Capital expenditure**	5,984,961	818,849	–	1,804,125	72,697	–	8,680,632

* *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, prepaid land premiums, trade receivables and other receivables.*

** *Capital expenditure consists of additions to 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 of the Company, the presentation of geographical information for revenue would provide no additional useful information to the users of these financial statements.

(b) Non-current assets

	2018	2017
	HK$'000	*HK$'000*
Mainland China	**95,252,872**	90,049,795
Germany	**10,190,692**	10,866,417
Russia	**8,676,588**	8,483,998
Elsewhere	**201,289**	219,034
	114,321,441	109,619,244

The non-current asset 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 2018 and 2017, none of the Group's individual customers contributed to 10% or more of the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Notes	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers			
Piped gas operation		**48,648,824**	39,891,172
Brewery operation		**12,366,723**	11,414,301
Solid waste treatment operation		**6,749,223**	6,202,552
		67,764,770#	57,508,025
Other income			
Bank interest income		**310,178**	276,492
Rental income		**43,864**	50,165
Government grants*		**175,050**	151,029
Transfer of assets from customers	*13*	**–**	66,355
Investment income from an equity investment designated at fair value through other comprehensive income		**48,740**	–
Investment income from a financial asset at fair value through profit or loss		**249,624**	120,444
Compensation income for disposal of an investment property		**–**	86,818
Others		**521,368**	517,962
		1,348,824	1,269,265
Gains, net			
Gain on disposal of items of property, plant and equipment, net		**13,469**	204,183
Gain on disposal of subsidiaries	*44*	**–**	14,389
Foreign exchange differences, net		**2,676**	–
		16,145	218,572
Other income and gains, net		**1,364,969**	1,487,837

* *Government grants represented government subsidies 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 that must be utilised for business development of the Company's subsidiaries.*

\# *Over 95% of the Group's revenue was recognised at a point in time while the remaining revenue is related to construction services transferred over time.*

6. PROFIT BEFORE TAX

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold		**55,505,615**	46,860,596
Cost of services provided		**1,348,649**	1,120,979
Depreciation	*13*	**3,500,464**	3,042,029
Amortisation of prepaid land premiums	*15*	**38,609**	45,992
Amortisation of operating concessions*	*17*	**122,425**	109,168
Amortisation of other intangible assets**	*18*	**288,695**	305,450
Research and development expenditure***		**60,912**	72,345
Minimum lease payments under operating leases		**314,027**	262,553
Auditor's remuneration		**14,923**	13,200
Employee benefit expense (including directors' remuneration – note 8):			
Salaries, allowances and benefits in kind		**6,548,880**	5,792,672
Net pension scheme contributions		**645,317**	684,314
Net benefit expense of defined benefit plans**	*37(a)*	**396,912**	202,116
		7,591,109	6,679,102
Less: Amount capitalised in construction in progress/operating concessions		**(33,184)**	(28,633)
		7,557,925	6,650,469
Foreign exchange difference, net		**(2,676)**	19,066***
Impairment of prepaid land premiums***	*15*	**76,254**	–
Impairment of items of property, plant and equipment***	*13*	**600,608**	244,220
Impairment of financial assets, net:			
Impairment of trade receivables, net***	*25(d)*	**85,298**	11,860
Impairment of other receivables, net***	*26(b)*	**70,926**	463
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**36,956**	37,771
Reversal of provision for onerous contracts and major overhauls*	*38*	**–**	(189,543)

* *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$224,416,000 (2017: HK$243,942,000) that is included in "Cost of sales".*

*** *These items are included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss.*

7. FINANCE COSTS

	Note	2018 HK$'000	2017 HK$'000
Interest on bank loans and other loans		**887,358**	605,550
Interest on guaranteed bonds, notes and senior notes		**1,101,202**	999,450
Total interest expenses		**1,988,560**	1,605,000
Increase in discounted amounts of provision for major overhauls arising from the passage of time	*38*	**2,190**	1,470
Total finance costs		**1,990,750**	1,606,470
Less: Interest capitalised in construction in progress		**(13,006)**	(9,936)
		1,977,744	1,596,534

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:

	2018 HK$'000	2017 HK$'000
Fees	**2,190**	2,543
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**14,967**	15,351
Pension scheme contributions	**29**	29
	14,996	15,380
	17,186	17,923

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 2018				
Executive directors:				
Mr. Hou Zibo	180	4,071	–	4,251
Mr. Li Yongcheng	180	2,587	–	2,767
Mr. Zhao Xiaodong	180	–	–	180
Mr. E Meng	150	3,125	–	3,275
Mr. Jiang Xinhao	150	3,005	–	3,155
Mr. Tam Chun Fai	150	2,179	29	2,358
	990	14,967	29	15,986
Independent non-executive directors:				
Mr. Wu Jiesi	300	–	–	300
Mr. Lam Hoi Ham	300	–	–	300
Mr. Sze Chi Ching	300	–	–	300
Mr. Yu Sun Say	300	–	–	300
Mr. Ma She	–	–	–	–
	1,200	–	–	1,200
Total directors' remuneration	2,190	14,967	29	17,186

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 2017				
Executive directors:				
Mr. Hou Zibo*	180	2,798	–	2,978
Mr. Li Yongcheng	180	1,523	–	1,703
Mr. Zhao Xiaodong**	60	–	–	60
Mr. E Meng	150	2,406	–	2,556
Mr. Jiang Xinhao	150	2,312	–	2,462
Mr. Tam Chun Fai	150	2,132	29	2,311
Mr. Wang Dong*	120	2,112	–	2,232
Mr. Zhou Si**	120	2,068	–	2,188
Mr. Li Fucheng**	120	–	–	120
	1,230	15,351	29	16,610
Independent non-executive directors:				
Mr. Wu Jiesi	294	–	–	294
Mr. Lam Hoi Ham	294	–	–	294
Mr. Sze Chi Ching	294	–	–	294
Mr. Yu Sun Say	294	–	–	294
Mr. Ma She	–	–	–	–
Mr. Fu Tingmei***	137	–	–	137
	1,313	–	–	1,313
Total directors' remuneration	2,543	15,351	29	17,923

Mr. Ma She waived to receive any remuneration from the Company for the years ended 31 December 2018 and 2017. Save as disclosed above, there was no agreement under which a director waived or agreed to waive any remuneration during the year.

* *Mr. Wang Dong resigned as an executive director and the Chairman of the Company's board of directors with effect from 1 September 2017. Mr. Hou Zibo was appointed re-designated as an executive director, the Chairman of the Company's board of directors, and the chief executive officer of the Company with effect from 1 September 2017.*

** *Mr. Zhou Si resigned as an executive director, the Vice Chairman of the Company's board of directors and the chief executive officer of the Company with effect from 1 September 2017. Mr. Li Fucheng resigned as an executive director and the Vice Chairman of the Company's board of directors with effect from 1 September 2017. Mr. Zhao Xiaodong was appointed as an executive director and the Vice Chairman of the Company's board of directors with effect from 1 September 2017.*

*** *Mr. Fu Tingmei retired as an independent non-executive director of the Company with effect from 22 June 2017.*

9. FIVE HIGHEST PAID EMPLOYEES

All of the five highest paid employees of the Group during each of the years ended 31 December 2018 and 2017 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

	2018 ***HK$'000***	2017 *HK$'000*
Current:		
Mainland China	**893,045**	668,787
Hong Kong	**9,651**	12,679
Germany	**404,690**	305,404
Others	**104,850**	–
Deferred *(note 40)*	**(253,426)**	(141,739)
Total tax expense for the year	**1,158,810**	845,131

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 (2017: 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:

2018

	Hong Kong		Mainland China		Germany		Others		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	2,481,898		4,242,368		1,015,465		1,355,720		9,095,451	
Tax expense at the statutory tax rate	409,513	16.5	1,060,592	25.0	304,640	30.0	271,144	20.0	2,045,889	22.5
Lower tax rate for specific provinces or enacted by local authority	–	–	(697,860)	(16.4)	–	–	–	–	(697,860)	(7.7)
Effect of withholding tax on the distributable profit	1,603	0.1	1,920	0.0	–	–	104,850	7.7	108,373	1.2
Profits and losses attributable to joint ventures and associates	(683,525)	(27.5)	(197,190)	(4.6)	–	–	(271,144)	(20.0)	(1,151,859)	(12.7)
Income not subject to tax	(37,586)	(1.5)	(66,722)	(1.6)	(8,704)	(0.9)	–	–	(113,012)	(1.2)
Expenses not deductible for tax	319,646	12.8	323,282	7.6	78,145	7.7	–	–	721,073	7.9
Tax losses not recognised as deferred tax assets	–	–	246,076	5.8	130	0.0	–	–	246,206	2.7
Tax expense at the Group's effective tax rate	9,651	0.4	670,098	15.8	374,211	36.8	104,850	7.7	1,158,810	12.7

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31 December 2018

10. INCOME TAX *(Continued)*

2017

	Hong Kong		Mainland China		Germany		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	2,104,269		5,062,281		865,858		8,032,408	
Tax expense at the statutory tax rate	347,985	16.5	1,265,571	25.0	259,758	30.0	1,873,314	23.3
Lower tax rate for specific provinces or enacted by local authority	–	–	(500,114)	(9.9)	–	–	(500,114)	(6.2)
Profits and losses attributable to joint ventures and associates	(497,658)	(23.6)	(360,178)	(7.1)	–	–	(857,836)	(10.7)
Income not subject to tax	(88,850)	(4.2)	(107,048)	(2.1)	(7,488)	(0.9)	(203,386)	(2.5)
Expenses not deductible for tax	251,202	11.9	35,725	0.7	10,870	1.3	297,797	3.7
Tax losses not recognised as deferred tax assets	–	–	235,356	4.6	–	–	235,356	2.9
Tax expense at the Group's effective tax rate	12,679	0.6	569,312	11.2	263,140	30.4	845,131	10.5

The share of tax attributable to joint ventures and associates amounting to HK$80,000 (2017: HK$5,068,000) and HK$1,809,454,000 (2017: HK$1,547,116,000), respectively, is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

	2018 *HK$'000*	2017 *HK$'000*
Interim – HK$0.32 (2017: HK$0.30) per ordinary share	**403,857**	378,616
Proposed final – HK$0.73 (2017: HK$0.68) per ordinary share	**921,299**	858,196
	1,325,156	1,236,812

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 1,262,053,268 (2017: 1,262,094,090) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

13. PROPERTY, PLANT AND EQUIPMENT

	Note	Land and buildings HK$'000 (note (a))	Leasehold improve-ments HK$'000	Gas pipelines HK$'000	Gas meters and other plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 (note (b))	Total HK$'000
Year ended 31 December 2018									
At 1 January 2018:									
Cost		16,381,071	441,119	21,459,288	35,472,172	1,362,807	861,742	8,373,073	84,351,272
Accumulated depreciation and impairment		(4,328,504)	(225,684)	(5,883,809)	(20,454,692)	(924,291)	(526,039)	(279,437)	(32,622,456)
Net carrying amount		12,052,567	215,435	15,575,479	15,017,480	438,516	335,703	8,093,636	51,728,816
Net carrying amount:									
At 1 January 2018		12,052,567	215,435	15,575,479	15,017,480	438,516	335,703	8,093,636	51,728,816
Additions		15,722	3,607	122,490	513,381	82,471	100,309	5,553,023	6,391,003
Transfer from construction in progress		566,152	–	3,844,273	1,863,394	25,548	13,057	(6,312,424)	–
Depreciation provided during the year	6	(518,234)	(7,090)	(1,034,539)	(1,760,571)	(104,089)	(75,941)	–	(3,500,464)
Impairment during the year recognised in profit or loss	6	–	–	–	(497)	–	–	(600,111)	(600,608)
Disposals		(20,070)	(132)	(553)	(58,288)	(3,894)	(3,651)	(25,706)	(112,294)
Exchange realignment		(500,425)	(8,800)	(760,568)	(646,298)	(17,958)	(15,090)	(239,751)	(2,188,890)
At 31 December 2018		11,595,712	203,020	17,746,582	14,928,601	420,594	354,387	6,468,667	51,717,563
At 31 December 2018:									
Cost		16,236,423	426,625	24,391,726	35,939,094	1,379,372	903,039	6,737,072	86,013,351
Accumulated depreciation and impairment		(4,640,711)	(223,605)	(6,645,144)	(21,010,493)	(958,778)	(548,652)	(268,405)	(34,295,788)
Net carrying amount		11,595,712	203,020	17,746,582	14,928,601	420,594	354,387	6,468,667	51,717,563

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

	Notes	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Gas pipelines HK$'000	Gas meters and other plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 (note (b))	Total HK$'000
Year ended 31 December 2017									
At 1 January 2017:									
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
Net carrying amount:									
At 1 January 2017		10,974,509	272,463	13,390,360	13,302,124	466,451	297,336	4,724,656	43,427,899
Additions		399,898	–	77,357	1,005,778	35,711	74,306	6,608,536	8,201,586
Transfer of assets from customers	5	–	–	31,765	34,590	–	–	–	66,355
Transfer from construction in progress		431,465	–	1,895,051	1,057,264	26,159	12,759	(3,422,698)	–
Depreciation provided during the year	6	(483,518)	(3,422)	(782,276)	(1,592,861)	(114,613)	(65,339)	–	(3,042,029)
Impairment during the year recognised in profit or loss	6	–	–	–	–	–	–	(244,220)	(244,220)
Disposals		(148,448)	(81,899)	(21,807)	(165,231)	(4,816)	(4,988)	(35)	(427,224)
Exchange realignment		878,661	28,293	985,029	1,375,816	29,624	21,629	427,397	3,746,449
At 31 December 2017		12,052,567	215,435	15,575,479	15,017,480	438,516	335,703	8,093,636	51,728,816
At 31 December 2017:									
Cost		16,381,071	441,119	21,459,288	35,472,172	1,362,807	861,742	8,373,073	84,351,272
Accumulated depreciation and impairment		(4,328,504)	(225,684)	(5,883,809)	(20,454,692)	(924,291)	(526,039)	(279,437)	(32,622,456)
Net carrying amount		12,052,567	215,435	15,575,479	15,017,480	438,516	335,703	8,093,636	51,728,816

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

Notes:

(a) At 31 December 2018, the land and building in relation to a solid waste incineration plant of the Group situated in Mainland China with a net carrying amount of HK$48,687,000 (2017: Nil) was pledged to secure a bank loan granted to the Group (note 35(c)(ii)); and

(b) During the year ended 31 December 2018, an impairment of HK$600,111,000 (2017: HK$244,220,000) was recognised against a gross carrying amount before impairment of HK$903,855,000 (2017: HK$908,739,000) relating to a construction in progress of certain solid waste treatment plants since the construction was completely suspended upon the request of the local government. The recoverable amount for these solid waste treatment plants as at 31 December 2018 was not significant.

The recoverable amount of HK$664,519,000 as at 31 December 2017 was determined based on the fair value less cost of disposal. The impairment was determined by reference to valuations performed by an independent professionally qualified valuer using market approach, by reference to investment costs of similar waste-to-energy plants located in the PRC. The fair value measurement was categorised within Level 3 of the fair value hierarchy with the following key inputs to the valuation:

	Valuation techniques	**Significant unobservable inputs**	**Weighted average**
Construction in Progress	Market approach	Estimated investment cost per ton (HK$)	54,800

14. INVESTMENT PROPERTIES

	2018	2017
	HK$'000	*HK$'000*
Carrying amount at 1 January	**1,184,287**	1,133,290
Demolishment	**–**	(42,805)
Exchange realignment	**(36,892)**	93,802
Carrying amount at 31 December	**1,147,395**	1,184,287

Notes:

(a) The investment properties are leased to third parties under operating leases, further details of which are included in note 47(a) to the financial statements.

(b) At 31 December 2018, the investment properties were revalued based on valuations performed by Cushman & Wakefield, independent professionally qualified valuers, using the investment method and direct comparison method. No fair value gain was recognised on the Group's investment properties during the year ended 31 December 2018 (2017: Nil) as the carrying amount approximates to the fair value.

(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.

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)	
	2018	2017
	HK$'000	*HK$'000*
Recurring fair value measurement for:		
Office buildings	**1,147,395**	1,184,287

14. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

Fair value hierarchy disclosure *(Continued)*

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 (2017: 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 of the Company, 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	
			2018	2017
Office buildings	Investment method and direct comparison method	Estimated rental value per square meter and per month (HK$)	**75 to 380**	79 to 396
		Capitalisation rate	**6.75% to 7.75%**	7% to 8%
		Price per square meter (HK$)	**10,169 to 56,129**	10,419 to 57,107

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

Significant increases/(decreases) in estimated rental value or price per square meter 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 meter is accompanied by a directionally similar change in the development profit and an opposite change in the capitalisation rate.

15. PREPAID LAND PREMIUMS

	Note	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January		**1,661,025**	1,566,277
Additions		**27,602**	82,413
Disposal		**–**	(31,695)
Amortisation provided during the year	*6*	**(38,609)**	(45,992)
Impairment during the year recognised in profit or loss *(note)*	*6*	**(76,254)**	–
Exchange realignment		**(66,335)**	90,022
Carrying amount at 31 December		**1,507,429**	1,661,025
Portion classified as current assets		**(38,342)**	(38,747)
Non-current portion		**1,469,087**	1,622,278

Note: During the year ended 31 December 2018, an impairment of HK$76,254,000 was recognised against a carrying amount before impairment of HK$76,254,000 relating to a prepaid land premium for a construction in progress of the Group's solid waste treatment operations. The related construction was suspended upon the request of the local government. Further details are set out in note 13(b) to these financial statements.

16. GOODWILL

	2018 HK$'000	2017 HK$'000
Cost and net carrying amount:		
At 1 January	**16,910,280**	15,772,276
Exchange realignment	**(357,264)**	1,138,004
At 31 December	**16,553,016**	16,910,280

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	2018 HK$'000	2017 HK$'000
Piped gas operation	(i)	**6,997,791**	7,004,854
Brewery operation	(ii)	**461,356**	481,128
Solid waste treatment operation	(iii)	**9,040,252**	9,355,016
Others		**53,617**	69,282
		16,553,016	16,910,280

Notes:

(i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by an independent professionally qualified valuer 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 9.5% (2017: 10.9%), which is determined by reference to average rates for a similar industry and the business risk of the relevant business unit. Growth rate of 3% (2017: 2.5%) 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 based on the fair value less costs of disposal 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 2018 (2017: Level 1).

(iii) Goodwill attributable to the solid waste treatment operation mainly arose from the Group's investment in EEW Holding GmbH and M+E Holding GmbH & Co. KG ("EEW Group") and Golden State Waste Management Corporation ("GSWM"), which were acquired by the Group in March 2016 and December 2014, respectively.

The recoverable amount of the solid waste treatment operation in Germany has been determined by reference to business valuation performed by an independent professionally qualified valuer on a value in use calculation using cash flow projections which are based on financial forecast approved by the senior management covering a period of five years.

The recoverable amount 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 covering the service concession periods.

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Notes: (Continued)

(iii) *(Continued)*

The financial forecast of EEW Group adopted the assumptions that the scale of the operations remains constant perpetually and the operation can generate cash flows perpetually from the related solid waste treatment projects. The discount rate applied to the cash flow projections is 6.5% (2017: 7.4%), which is determined by reference to average rates for a similar industry and the business risk of the relevant business unit. Growth rate of 2% (2017: 2%) is used for the perpetual period.

The financial forecast of GSWM adopted the assumptions that the scale of the operations 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 9.6% (2017: 10.8%), which is determined by reference to average rates for a similar industry and the business risk of the relevant business unit. Growth rate of 3% (2017: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors of the Company, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2018 (2017: Nil).

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

(i) Budgeted turnover
The budgeted turnover is based on the projected piped gas sales volume.

(ii) Budgeted gross margins
In respect of the relevant business units in the piped gas operation segment, the budgeted gross margins are based on the latest selling price of gas up to the date of the valuation report.

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in value in use calculation (Continued)

Piped gas operation *(Continued)*

(iii) Discount rates

The discount rates used are before tax and reflect specific risks relating to the piped gas operation.

(iv) Business environment

– There will be no major changes in the existing political, legal and economic conditions in Mainland China and other locations in which the assessed entity carried on its business.

– The gas supply network has already been set up in most urban areas in Beijing where the Group's piped gas operations are located. A high degree of unique features of the gas supply business and high construction and fixed costs in establishing alternative gas supply network in 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 of the Company, the Group's piped gas operation can generate income perpetually.

Solid waste treatment operation

(i) Budgeted turnover

The budgeted turnover is based on the projected solid waste treatment volume and the latest selling prices of solid waste treatment and electricity, steam and heat up to the date of the forecast.

(ii) Budgeted gross margins

The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, having adjusted for expected efficiency improvements, and expected market development.

(iii) Discount rates

The discount rates used are before tax and reflect specific risks relating to the relevant unit.

(iv) 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 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:

Operating concessions

	Note	**2018** **HK$'000** *(note (a))*	2017 *HK$'000* *(note (a))*
At 1 January:			
Cost		**4,929,419**	4,299,346
Accumulated amortisation and impairment		**(1,810,778)**	(1,633,296)
Net carrying amount		**3,118,641**	2,666,050
Net carrying amount:			
At 1 January		**3,118,641**	2,666,050
Additions		**120,826**	412,693
Amortisation provided during the year	*6*	**(122,425)**	(109,168)
Exchange realignment		**(135,892)**	149,066
At 31 December		**2,981,150**	3,118,641
At 31 December:			
Cost		**3,961,393**	4,929,419
Accumulated amortisation and impairment		**(980,243)**	(1,810,778)
Net carrying amount		**2,981,150**	3,118,641

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2018	2017
	HK$'000	*HK$'000*
Receivables under service concession arrangements attributable to solid waste treatment operation *(notes (a) and (b))*	**1,931,397**	1,980,812
Portion classified as current assets	**(123,605)**	(85,492)
Non-current portion	**1,807,792**	1,895,320

Notes:

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

At 31 December 2018, the Group had 9 (2017: 9) service concession arrangements on solid waste treatment with certain governmental authorities in Mainland China.

At 31 December 2018, a solid waste treatment operation concession right of the Group with a net carrying amount of HK$370,096,000 (2017: HK$421,111,000) was pledged to secure bank loan granted to the Group (note 35(c)(i)).

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

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Impairment under HKFRS 9 for the year ended 31 December 2018

The Group provides for lifetime ECL for receivables under service concession arrangements based on the credit rating of the debtors. Based on historical data and management's analysis, loss on collection is not material and hence no provision is considered.

Impairment under HKAS 39 for the year ended 31 December 2017

An ageing analysis of the Group's 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:

	2017 *HK$'000*
Unbilled:	
Current portion	85,492
Non-current portion	1,895,320
	1,980,812

Receivables under service concession arrangements were neither past due nor impaired. Such receivables were due from the grantors in respect of the Group's solid waste treatment and power generation operation. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

18. OTHER INTANGIBLE ASSETS

	Note	Patents *HK$'000*	Operating rights *HK$'000*	Computer software *HK$'000*	Customer contracts *HK$'000*	Total *HK$'000*
Year ended 31 December 2018						
At 1 January 2018:						
Cost		51,051	70,768	509,973	3,776,452	4,408,244
Accumulated amortisation		(3,308)	(10,989)	(280,107)	(476,213)	(770,617)
Net carrying amount		47,743	59,779	229,866	3,300,239	3,637,627
Net carrying amount:						
At 1 January 2018		47,743	59,779	229,866	3,300,239	3,637,627
Additions		–	–	61,378	–	61,378
Amortisation provided during the year	*6*	(2,044)	(5,030)	(57,205)	(224,416)	(288,695)
Exchange realignment		(1,291)	(2,432)	(17,708)	(116,683)	(138,114)
At 31 December 2018		44,408	52,317	216,331	2,959,140	3,272,196
At 31 December 2018:						
Cost		51,051	72,765	542,145	3,633,162	4,299,123
Accumulated amortisation		(6,643)	(20,448)	(325,814)	(674,022)	(1,026,927)
Net carrying amount		44,408	52,317	216,331	2,959,140	3,272,196

18. OTHER INTANGIBLE ASSETS *(Continued)*

	Note	Patents *HK$'000*	Operating rights *HK$'000*	Computer software *HK$'000*	Customer contracts *HK$'000*	Total *HK$'000*
Year ended 31 December 2017						
At 1 January 2017:						
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
Net carrying amount:						
At 1 January 2017		48,607	59,085	185,020	3,063,251	3,355,963
Additions		–	–	66,353	–	66,353
Amortisation provided during the year	*6*	(2,094)	(3,444)	(55,970)	(243,942)	(305,450)
Exchange realignment		1,230	4,138	34,463	480,930	520,761
At 31 December 2017		47,743	59,779	229,866	3,300,239	3,637,627
At 31 December 2017:						
Cost		51,051	70,768	509,973	3,776,452	4,408,244
Accumulated amortisation		(3,308)	(10,989)	(280,107)	(476,213)	(770,617)
Net carrying amount		47,743	59,779	229,866	3,300,239	3,637,627

NOTES TO FINANCIAL STATEMENTS

31 December 2018

19. INTERESTS IN JOINT VENTURES

	Note	2018 HK$'000	2017 HK$'000
Investments in joint ventures, included in non-current assets:			
Share of net assets		**358,475**	344,850
Due from joint ventures, included in current assets	*26*	**89,498**	93,333
Interests in joint ventures		**447,973**	438,183

20. INTERESTS IN ASSOCIATES

	Notes	2018 HK$'000	2017 HK$'000 (Restated)
Investments in associates, included in non-current assets:			
Share of net assets	*(b)*	**42,787,514**	37,399,080
Goodwill on acquisition	*(b), (c)*	**10,588,061**	10,583,665
		53,375,575	47,982,745
Due from associates, included in current assets	*26*	**37,308**	516,305
Interests in associates		**53,412,883**	48,499,050

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	Voting power	Profit sharing
中石油北京天然氣管道有限公司 ("PetroChina Beijing Gas")	PRC	Issued capital	40	40	40
BE Water[π]	Bermuda	Ordinary shares	42.43	42.43	42.43
China Gas Holdings Limited ("China Gas")[Ω]	Bermuda	Ordinary shares	24.36	24.36	24.36
PJSC Verkhnechonskneftegaz ("VCNG")	Russian Federation	Ordinary shares	20	20	20

[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 2018, based on the quoted market price, amounted to approximately HK$15,935,499,000 (2017: HK$23,137,426,000).*

During the year ended 31 December 2018, the Group's equity interest in BE Water was diluted from 43.49% to 42.43% upon the (i) exercise of 2,580,000 share options by certain option holders of BE Water; (ii) placing of 450,000,000 new shares; (iii) issuance of 169,491,525 new shares; and (iv) repurchase and cancellation of 2,900,000 ordinary shares by BE Water, resulting in a gain on deemed disposal of HK$330,394,000 recognised by the Group in the consolidated statement of profit or loss.

During the year ended 31 December 2017, the Group's equity interest in BE Water was diluted from 43.77% to 43.49% upon the exercise of 55,950,000 share options by certain option holders of BE Water, resulting in the issue of 55,950,000 ordinary shares, and a gain on deemed disposal of HK$10,410,000 was recognised by the Group in the consolidated statement of profit or loss.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

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

Ω *China Gas is a listed company on the Main Board of the Hong Kong Stock Exchange. The market value of the shares of China Gas held by the Group as at 31 December 2018, based on its then quoted market price, amounted to approximately HK$34,530,802,000 (2017: HK$26,733,524,000).*

During the year ended 31 December 2018, the Group's equity interest in China Gas decreased from 24.91% to 24.36% upon the (i) exercise of 112,800,000 shares options by certain option holders of China Gas; and (ii) repurchase and cancellation of 9,851,200 ordinary shares by China Gas, resulting in a gain on deemed disposal of HK$218,620,000 recognised by the Group in the consolidated statement of profit or loss.

During the year ended 31 December 2017, the Group's equity interest in China Gas increased from 22.95% to 24.91% upon the (i) issuance of consideration shares of 110,823,011 shares pursuant to the amended and restated share purchase agreement relating to the acquisition of the entire issued share capital of Beijing Gas Development on 16 February 2017, details of which are set out in note 44 to the financial statements; and (ii) repurchase and cancellation of 17,812,000 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 four material associates are as follows:

(i) PetroChina Beijing Gas is engaged in the provision of natural gas transmission services in the PRC;

(ii) BE Water is engaged in the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, sewage treatment, water treatment and distribution, and the provision of consultancy services and the licensing of technical know-how that is related to sewage treatment in the PRC and certain overseas countries;

(iii) China Gas 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; and

(iv) VCNG is principally engaged in exploring, appraising, developing, producing and marketing oil, gas and condensate field in Russia.

In November 2016, the Group entered into an acquisition agreement with an independent third party (the "Seller"), pursuant to which the Group agreed to purchase and the Seller agreed to sell approximately 20% equity interest (an aggregate of 6,901,160 ordinary shares) of PJSC Verkhnechonskneftegaz ("VCNG") at a cash consideration of US$1,100 million plus a completion adjustment payment which is no more than US$20 million. The transaction was completed on 29 June 2017 and the related cash consideration of approximately US$1,089 million (after adjustment payment) had been fully settled by the Group. As a result, VCNG became an associate of the Group.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(b) Material associates disclosures *(Continued)*

The following table illustrates the summarised financial information of the above four material associates and has been adjusted to reflect the fair values of identifiable assets and liabilities at the 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*		VCNG	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (Restated)#
Current assets	**1,344,903**	3,427,594	**31,976,428**	23,538,908	**33,939,884**	20,036,752	**4,234,550**	6,834,197
Non-current assets	**45,965,993**	47,145,877	**94,300,615**	76,922,164	**59,586,394**	49,825,408	**39,175,645**	38,429,777
Current liabilities	**(6,480,608)**	(4,984,391)	**(36,516,547)**	(27,693,378)	**(33,498,090)**	(26,607,717)	**(2,422,811)**	(5,131,708)
Non-current liabilities	**(7,990,868)**	(13,690,476)	**(51,948,359)**	(39,726,371)	**(25,931,633)**	(16,093,359)	**(6,343,872)**	(6,429,383)
Net assets	**32,839,420**	31,898,604	**37,812,137**	33,041,323	**34,096,555**	27,161,084	**34,643,512**	33,702,883
Less: Non-controlling interests	**(7,774)**	(8,278)	**(12,322,600)**	(12,256,600)	**(5,162,911)**	(3,756,866)	**–**	–
Net assets attributable to shareholders of the associates	**32,831,646**	31,890,326	**25,489,537**	20,784,723	**28,933,644**	23,404,218	**34,643,512**	33,702,883
Reconciliation to the Group's investments in the associates								
Proportion of the Group's ownership	**40%**	40%	**42.43%**	43.49%	**24.36%**	24.91%	**20%**	20%
Group's share of net assets of the associates, excluding goodwill recognised by the Group	**13,132,658**	12,756,131	**10,815,211**	9,039,276	**7,047,403**	5,830,013	**6,928,702**	6,740,577
Goodwill on acquisition recognised by the Group	**–**	–	**443,586**	443,586	**8,040,362**	8,040,362	**1,747,886**	1,743,421#
Other reconciling items	**–**	–	**(35,288)**	(35,288)	**–**	–	**–**	–
Carrying amount of the investments	**13,132,658**	12,756,131	**11,223,509**	9,447,574	**15,087,765**	13,870,375	**8,676,588**	8,483,998
Other disclosures								
Revenues	**11,302,598**	12,324,401	**24,596,857**	21,192,372	**60,833,805**	39,687,799	**23,133,541**	9,449,908
Profit for the year	**4,186,639**	5,705,591	**5,230,020**	4,440,545	**7,547,400**	6,457,391	**6,778,600**	2,380,883
Profit for the year attributable to shareholders of the associates	**4,186,380**	5,704,765	**4,471,265**	3,717,227	**6,925,698**	5,851,150	**6,778,600**	2,105,362
Other comprehensive income/(loss) for the year	**–**	–	**(2,795,925)**	2,303,847	**(1,922,741)**	171,945	**(2,244,786)**	–
Other comprehensive income/(loss) for the year attributable to shareholders of the associates	**–**	–	**(1,911,268)**	1,652,624	**(1,827,237)**	141,888	**(2,244,786)**	–
Share of the associates' profit for the year	**1,674,552**	2,281,906	**1,897,158**	1,616,592	**1,696,406**	1,389,106	**1,355,720**	421,072
Share of the associates' other comprehensive income/(loss) for the year	**–**	–	**(810,951)**	718,726	**(455,166)**	35,344	**(448,957)**	10,903
Dividend received/receivable by the Group	**2,101,714**	4,827,247	**678,956**	535,411	**440,565**	303,866	**656,797**	480,470

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

* *The financial period end of the financial statements of China Gas for which the equity accounting method was used for the year ended 31 December 2018 is as of 30 September 2018 or for the twelve months ended 30 September 2018 which is not coterminous with that of the Company's financial year end date. The statutory financial year-end date of China Gas is 31 March. The financial statements for the twelve months ended 30 September 2018 are the latest financial statements of China Gas available for equity accounting by the Group.*

The goodwill on acquisition of the equity interests of VCNG as disclosed in the financial statements for the year ended 31 December 2017 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 of VCNG and the initial accounting for the acquisition was incomplete. The related accounting was completed during the year ended 31 December 2018 and the share of net assets as at the acquisition date had been decreased by HK$1,120,221,000 and the goodwill arising from the acquisition had been increased by the same amount. The comparative information for the year ended 31 December 2017 has been revised accordingly.

The following tables illustrate the aggregate financial information of the Group's associates that are not individually material:

	2018	2017
	HK$'000	*HK$'000*
Share of the associates' profit and total comprehensive income for the year	**42,777**	119,268
Share of net assets of the associates, excluding goodwill recognised by the Group	**4,898,828**	3,068,371
Goodwill on acquisition recognised by the Group	**356,227**	356,296

21. RECEIVABLES UNDER FINANCE LEASE

One of the Group's solid waste treatment plants in Germany is leased out under a finance lease which has a remaining lease term of 5.5 years (2017: 6.5 years).

	Minimum lease payment		Present value of minimum lease payment	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Finance lease receivables comprise:				
Within one year	**142,849**	160,871	**138,334**	154,859
In the second year	**142,849**	149,053	**129,008**	133,587
In the third to fifth years, inclusive	**428,546**	447,158	**337,145**	349,112
After five years	**477,828**	639,649	**323,345**	408,706
Total minimum finance lease receivables	**1,192,072**	1,396,731	**927,832**	1,046,264
Less: Unearned finance income	**(264,240)**	(350,467)		
Total net finance lease receivables	**927,832**	1,046,264		
Portion classified as current assets	**(81,260)**	(90,421)		
Non-current portion	**846,572**	955,843		

21. RECEIVABLES UNDER FINANCE LEASE *(Continued)*

Impairment under HKFRS 9 for the year ended 31 December 2018

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

Impairment under HKAS 39 for the year ended 31 December 2017

An ageing analysis of the Group's receivables under finance lease as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	2017 *HK$'000*
Unbilled:	
Current portion	90,421
Non-current portion	955,843
	1,046,264

Receivables that were neither past due nor impaired related to a lessee for whom there was no recent history of default.

Receivables that were past due but not impaired related to an independent customer that had 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 were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

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 Beijing Gas Blue Sky Holdings Limited ("Blue Sky"), formerly known as Blue Sky Power Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (Stock code: 6828) and an associate of the Group. 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 at initial recognition for accounting purposes. 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 31 December 2017, the carrying amount of the debt component of convertible bonds receivables amounted to HK$98,682,000 and the fair value of the derivative component of convertible bonds amounted to HK$40,376,000. It was determined by the directors of the Company with reference to the valuation performed by independent qualified valuers.

Upon adoption of HKFRS 9 on 1 January 2018, the whole instrument was classified as financial assets at fair value through profit or loss. On 31 August 2018, the Group exercised its conversion option and converted the remaining principal amount of HK$130,000,000 into 288,888,888 ordinary shares of Blue Sky at the conversion price of HK$0.45 per share. Immediately after the conversion, the Group's equity interest in Blue Sky increased by approximately 1.35% and all the outstanding convertible bonds had been fully converted.

In the opinion of the Company's directors, since the financial impact of the derivative component of convertible bonds receivables was insignificant in 2017 and 2018, information in respect of the valuation techniques, assumption and key inputs to the valuation of this instrument are not disclosed in the consolidated financial statements.

23. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018 HK$'000	2017 HK$'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value		
– Beijing Jingneng Clean Energy Co., Limited	**372,262**	–
– Biosino Bio-Technology and Science Incorporation	**43,065**	–
– CNPC Capital Company Limited	**2,156,911**	–
	2,572,238	–
Unlisted equity investments, at fair value		
– Others	**336,100**	–
	2,908,338	–
Available-for-sale investments		
Listed equity investments, at fair value	**–**	3,595,322
Unlisted equity investments, at cost	**–**	2,848,121
Impairment	**–**	(11,358)
	–	6,432,085

The above equity investments were irrevocably designated at fair value through other comprehensive income upon the adoption of HKFRS 9 on 1 January 2018 as the Group considers these investment to be strategic in nature.

As at 31 December 2017, the unlisted equity investments of the Group are not stated at fair value but at cost because they did not have a quoted market price in an active market, the range of reasonable fair value estimates were significant for these investments and the probabilities of the various estimates could not be reasonably assessed.

24. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**4,110,646**	4,217,354
Work in progress	**612,243**	711,731
Finished goods	**415,735**	365,395
	5,138,624	5,294,480

25. TRADE AND BILLS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade and bills receivables	**5,475,684**	4,206,986
Impairment *(note (d))*	**(258,787)**	(193,923)
	5,216,897	4,013,063

Notes:

(a) Included in the Group's trade receivables as at 31 December 2018 were aggregate amounts of HK$35,251,000 (2017: HK$36,338,000) and HK$55,227,000 (2017: HK$54,636,000) 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 2018, trade receivables amounting to HK$53,232,000 (2017: HK$81,840,000) were pledged to secure certain bank loans (note 35(c)(iii)).

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

25. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: (Continued)

(c) *(Continued)*

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

	2018	2017
	HK$'000	*HK$'000*
Billed:		
Within one year	**2,907,189**	2,915,255
One to two years	**73,721**	55,954
Two to three years	**31,788**	21,596
Over three years	**53,455**	57,382
	3,066,153	3,050,187
Unbilled	**2,150,744**	962,876
	5,216,897	4,013,063

(d) The movements in the loss allowance of trade and bills receivables during the year are as follows:

		2018	2017
	Note	***HK$'000***	*HK$'000*
At beginning of year		**193,923**	195,595
Impairment losses, net	*6*	**85,298**	11,860
Amount written off as uncollectible		**(9,556)**	(27,444)
Exchange realignment		**(10,878)**	13,912
At end of year		**258,787**	193,923

25. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: (Continued)

(d) *(Continued)*

Impairment under HKFRS 9 for the year ended 31 December 2018

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

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

As at 31 December 2018

		Billed			
	Within 1 year	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Expected credit loss rate	**1.29%**	**10.80%**	**25.03%**	**78.28%**	**4.73%**
Gross carrying amount (HK$'000)	**5,176,293**	**38,995**	**29,852**	**230,544**	**5,475,684**
Expected credit losses (HK$'000)	**66,627**	**4,211**	**7,471**	**180,478**	**258,787**

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of HK$193,923,000 with a carrying amount before provision of HK$239,073,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 *HK$'000*
Neither past due nor impaired	2,649,945
Less than one year past due	220,160
More than one year past due	134,932
	3,005,037

25. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: (Continued)

(d) *(Continued)*

Impairment under HKAS 39 for the year ended 31 December 2017 *(Continued)*

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had 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 were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

26. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	2018 HK$'000	2017 HK$'000
Prepayments		**1,401,839**	843,833
Deposits and other debtors	*(a)(i), (iii)*	**1,771,927**	1,839,051
Due from associates	*20, 27, (a)(ii)*	**37,308**	516,305
Due from holding companies	*27*	**1,590,632**	1,620,744
Due from fellow subsidiaries	*27*	**119,863**	167,354
Due from joint ventures	*19, 27*	**89,498**	93,333
Due from related parties	*27*	**182,298**	143,927
Contract assets	*(c)*	**171,442**	–
Amounts due from contract customers		**–**	39,629
		5,364,807	5,264,176
Impairment allowance	*(b)*	**(214,389)**	(147,948)
		5,150,418	5,116,228
Portion classified as current assets		**(3,611,879)**	(4,214,839)
Non-current portion		**1,538,539**	901,389

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

Notes:

(a) The Group's prepayments, other receivables and other assets as at 31 December 2018 and 2017 include, inter alia, the following:

(i) certain deposits of HK$85,198,000 (2017: HK$194,425,000) in total, which were classified as non-current assets, paid for the construction or purchase of buildings, pipelines, equipment and machinery;

(ii) dividend of HK$480 million receivable from VCNG as at 31 December 2017 settled in February 2018; and

(iii) a deposit of EUR23 million (equivalent to approximately HK$207 million) (2017: EUR23 million (equivalent to approximately HK$217 million)) paid to a bank for securing certain bank facilities granted. Such deposit will be refunded upon the expiry of the banking facilities (note 35(c)(iv)).

(b) Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2018, the probability of default applied ranged from 0.25% to 2.19% and the loss given default was estimated to be ranged from 55.37% to 62.38%. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

The movements in the loss allowance during the year are as follows:

	2018 ***HK$'000***	2017 *HK$'000*
At 1 January	**147,948**	138,952
Impairment losses, net *(note 6)*	**70,926**	463
Exchange realignment	**(4,485)**	8,533
At 31 December	**214,389**	147,948

The above loss allowance of other debtors of the Group represented the provision for individually impaired other debtors with an aggregate carrying amount of HK$217,000,000 (2017: HK$152,959,000).

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

Notes: (Continued)

(c)

	31 December 2018	1 January 2018	31 December 2017
	HK$'000	*HK$'000*	*HK$'000*
Contract assets arising from:			
Solid waste treatment service contracts	**171,442**	39,629	–

Contract assets are initially recognised for revenue earned from the provision of construction service as the receipt of consideration is conditional on successful completion of construction service. Upon completion of construction service, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2018 was the result of the increase in the provision of service contracts closed to the end of the year.

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	HK$'000
Within one year	161,187
More than one year	10,255
Total contract assets	171,442

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. As at 31 December 2018, the probability of default applied ranged from 0.25% to 2.19% and the loss given default was estimated to be ranged from 55.37% to 62.38%.

(d) 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.

27. DUE FROM/(TO) HOLDING COMPANIES/FELLOW SUBSIDIARIES/JOINT VENTURES/ ASSOCIATES/RELATED PARTIES

The amounts due from/(to) holding companies, fellow subsidiaries, joint ventures, associates and related parties are unsecured, interest-free and repayable on demand, except for an aggregate amount of RMB78,400,000 (equivalent to HK$89,498,000) (2017: RMB78,400,000 (equivalent to HK$93,333,000)) due from a joint venture, which is unsecured, bears interest at a rate ranged from 3.92% to 4.35% (2017: 4.35%) per annum and is repayable within one year. Interest income of RMB2,668,000 (equivalent to HK$3,176,000) (2017: RMB2,729,000 (equivalent to HK$3,173,000)) was recognised in profit or loss in respect of this balance.

In addition, loans advanced from an associate were interest-bearing, details of which are included in note 35(b)(ii).

The balances with holding companies, fellow subsidiaries, joint ventures, associates and related parties of the Group included in trade and bills receivables, prepayments, other receivables and other assets, trade and bills payables, and other payables are disclosed in notes 25(a), 26, 41 and 42 to the financial statements, respectively.

28. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 ***HK$'000***	2017 *HK$'000*
Unlisted investment in a fund, at fair value	**2,301,452**	–

The above investment in a fund at 31 December 2018 was classified as a financial asset at fair value through profit or loss as it was mandatorily required to be measured at fair value through profit or loss.

29. RESTRICTED CASH AND PLEDGED DEPOSITS

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Restricted cash	*(a)*	**27,353**	28,526
Pledged deposits	*(b)*	**12,630**	14,785
Restricted cash and pledged deposits		**39,983**	43,311

29. RESTRICTED CASH AND PLEDGED DEPOSITS *(Continued)*

Notes:

(a) Restricted cash of the Group mainly represented the proceeds of a government surcharge of HK$27,353,000 (2017: 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 42(a)(i)).

(b) Bank balances of HK$12,630,000 (2017: HK$14,785,000) as at 31 December 2018 were pledged to secure certain bank loans granted to the Group (note 35(c)(v)).

30. CASH AND CASH EQUIVALENTS

	2018	2017
	HK$'000	*HK$'000*
Cash and bank balances:		
Placed in banks	**9,623,477**	8,367,506
Placed in a financial institution *(note 49(a)(ix))*	**464,658**	660,309
Time deposits:		
Placed in banks	**5,563,092**	6,667,674
Placed in a financial institution *(note 49(a)(ix))*	**2,324,252**	2,189,431
	17,975,479	17,884,920
Less: Restricted cash and pledged deposits *(note 29)*	**(39,983)**	(43,311)
Cash and cash equivalents	**17,935,496**	17,841,609

Notes:

(a) At 31 December 2018, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$14.7 billion (2017: HK$12.4 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 time deposits are deposited with creditworthy banks with no recent history of default.

31. INVESTMENT IN AN ASSOCIATE CLASSIFIED AS HELD FOR SALE

	2017 *HK$'000* *(note)*
Investment in Jingtang, an associate	1,149,968

Note:

In September 2017, the Group acquired a 29% equity interest in PetroChina Jingtang LNG Co., Ltd. ("Jingtang") from Beijing Enterprises Group at a cash consideration of RMB966 million (equivalent to approximately HK$1,150 million). Jingtang is principally engaged in the provision of port facilities for vessels, provision of cargo handling services, warehousing and loading services within the port area; receiving, storage and re-gasification of liquefied natural gas.

On 3 November 2017, the Group and Blue Sky, an associate of the Company, entered into a non-legally binding memorandum of understanding, pursuant to which the Group intended to sell and Blue Sky intended to acquire the entire equity interest of Jingtang. The consideration for the disposal was expected to be no more than RMB1,008 million (equivalent to approximately HK$1,200 million), which would be satisfied by Blue Sky allotting and issuing 2,407,708,800 ordinary shares to the Group. Jingtang was then classified as an investment in an associate classified as held for sale until the completion of the transaction on 6 June 2018. A total of 2,407,708,800 shares of Blue Sky were then allotted and issued as consideration to the Group.

32. SHARE CAPITAL

Shares

	2018 ***HK$'000***	2017 *HK$'000*
Issued and fully paid:		
1,262,053,268 (2017: 1,262,053,268) ordinary shares	**30,401,883**	30,401,883

32. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

A summary of movements in the Company's share capital is as follows:

	Note	Number of shares in issue	Share capital HK$'000
At 1 January 2017		1,262,153,268	30,401,883
Shares repurchased and cancelled	*(a)*	(100,000)	–
At 31 December 2017, 1 January 2018 and 31 December 2018		1,262,053,268	30,401,883

Note:

(a) During the year ended 31 December 2017, the Company repurchased a total of 100,000 ordinary shares of the Company on the Hong Kong Stock Exchange at a purchase price of HK$37.20 per share and the total consideration amounted to approximately HK$3,720,000 (and transaction cost of HK$13,000), which was paid wholly 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 ended 31 December 2017 and the total amount paid for the repurchase of these shares of HK$3,733,000 had been charged to retained profits of the Company. No share was repurchased or cancelled during the year ended 31 December 2018.

33. SHARE OPTION SCHEME

The Company's share option scheme effective on 17 October 2005 lapsed on 17 November 2015. The Company currently does not have any effective share option scheme. 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 2018 and 2017.

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 2018 were distributable in the form of cash dividends.

35. BANK AND OTHER BORROWINGS

	2018 HK$'000	2017 HK$'000
Bank loans:		
Secured	**856,929**	915,890
Unsecured	**25,834,006**	26,400,709
	26,690,935	27,316,599
Other loans:		
Unsecured	**1,806,973**	1,760,004
Total bank and other borrowings	**28,497,908**	29,076,603
Analysed into:		
Bank loans repayable:		
Within one year	**986,501**	5,565,637
In the second year	**4,718,284**	1,115,554
In the third to fifth years, inclusive	**19,571,455**	19,274,451
Beyond five years	**1,414,695**	1,360,957
	26,690,935	27,316,599
Other loans repayable:		
Within one year	**552,906**	826,102
In the second year	**147,138**	194,409
In the third to fifth years, inclusive	**881,878**	413,654
Beyond five years	**225,051**	325,839
	1,806,973	1,760,004
Total bank and other borrowings	**28,497,908**	29,076,603
Portion classified as current liabilities	**(1,539,407)**	(6,391,739)
Non-current portion	**26,958,501**	22,684,864

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:

	2018	2017
	HK$'000	*HK$'000*
HK$	**16,976,764**	15,132,574
RMB	**3,004,113**	3,509,049
US$	**1,905,695**	2,382,539
EUR	**6,611,336**	8,052,441
	28,497,908	29,076,603

(b) Included in the Group's bank and other borrowings are:

(i) amortised cost of an interest-free loan of HK$132,334,000 (2017: HK$138,006,000) granted by a non-controlling equity holder of a subsidiary;

(ii) an aggregate amount of HK$300 million (2017: HK$300 million) and RMB742 million (equivalent to HK$847 million) (2017: RMB1,016 million (equivalent to HK$1,209 million)) due to an associate, which bears interest at rates ranging from HIBOR plus 1.05% to 5.32% per annum. Interest expenses of HK$64,210,000 (2017: HK$71,398,000) were recognised in profit or loss during the year in respect of the loans (note 49(a)(ix)); and

(iii) certain bank and other loans, with an aggregate carrying amount of HK$68,741,000 (2017: HK$121,873,000), that principally came from three overseas governments, the Asian Development Bank and 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$7,483,000 (2017: HK$7,964,000), 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 a solid waste treatment operation concession right for a net carrying amount of HK$370,096,000 (2017: HK$421,111,000) which is under the management of the Group pursuant to the relevant service concession agreement entered into with the grantor (note 17(a));

(ii) a mortgage over land and buildings of the Group with a net carrying amount of HK$48,687,000 (2017: Nil) as at 31 December 2018 (Note 13(a));

(iii) the assignment of the Group's trade receivables with an aggregate amount of HK$53,232,000 (2017: HK$81,840,000) (note 25(b));

(iv) a deposit of EUR23 million (equivalent to approximately HK$207 million) (2017: EUR23 million (equivalent to approximately HK$217 million)) paid to a bank as at 31 December 2018 (note 26(a)(iii)); and

(v) the Group's bank balances of HK$12,630,000 (2017: HK$14,785,000) as at 31 December 2018 (note 29(b)).

(d) Below is a summary of the bank loans obtained by the Group as at 31 December 2018:

	Obtained in	Bear annual interest at	Fully repayable on
Five-year HK$4 billion term loan	2015	HIBOR+1.15%	27 November 2020
Five-year HK$3 billion term loan	2016	HIBOR+0.68%	22 November 2021
Five-year HK$1.94 billion term loan	2016	HIBOR+1.06%	7 December 2021
Five-year HK$4 billion term loan	2016	HIBOR+0.88%	24 June 2021
Five-year US$290 million syndicated loan	2017	LIBOR+0.825%	15 May 2022
Five-year HK$4 billion term loan	2017	HIBOR+0.62%	17 July 2022
Five-year EUR350 million loan	2018	EURIBOR+1.09%	17 July 2023

The loan agreements in respect of the loans outstanding as at 31 December 2018 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.

To the best knowledge of the directors of the Company, none of the above default events took place during the year (2017: None) and as at the date of approval of these financial statements.

36. GUARANTEED BONDS, NOTES AND SENIOR NOTES

	Notes	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	2018 HK$'000	2017 HK$'000
2011 First Senior Notes	(a)	US$600	5%	2021	4,647,003	4,629,822
2011 Second Senior Notes	(a)	US$400	6.375%	2041	3,098,002	3,086,548
2012 Senior Notes	(a)	US$800	4.5%	2022	6,218,602	6,195,520
2015 EUR Bonds	(b)	EUR500	1.435%	2020	4,488,860	4,655,270
2015 US Bonds	(c)	US$200	4.99%	2040	1,521,040	1,516,410
2017 EUR Bonds	(d)	EUR800	1.3%	2022	7,154,680	7,457,470
2017 Guaranteed Notes	(e)	US$500	2.75%	2022	3,896,620	3,869,465
					31,024,807	31,410,505

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 (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.

36. GUARANTEED BONDS, NOTES AND SENIOR NOTES *(Continued)*

Notes: (Continued)

(d) On 21 April 2017, Talent Yield European Limited (a wholly-owned subsidiary of the Company) issued guaranteed bonds with aggregate principal amounts of EUR800,000,000 (the "2017 EUR Bonds") to certain institutional investors. Pursuant to the 2017 EUR Bonds purchase agreements dated 12 April 2017, the 2017 EUR Bonds, unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture, bear interest at the rate of 1.3% per annum and will mature on 21 April 2022.

(e) On 31 May 2017, Beijing Gas Singapore Capital Corporation (a wholly-owned subsidiary of the Company) issued guaranteed notes with aggregate principal amounts of US$500 million (the "2017 Guaranteed Notes") to certain institutional investors. Pursuant to the 2017 Guaranteed Notes purchase agreements dated 23 May 2017, the 2017 Guaranteed Notes, unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture, bear interest at the rate of 2.75% per annum and will mature on 31 May 2022.

Except for the 2017 Guaranteed Notes which is guaranteed by Beijing Gas Group Company Limited, a wholly-owned subsidiary of the Company, all the above bonds and senior notes are guaranteed by the Company.

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

37. DEFINED BENEFIT PLANS

Certain employees of Beijing Gas and EEW Group, indirectly-held wholly-owned subsidiaries of the Company, are entitled to retirement benefits after retirement such as supplemental medical reimbursement, allowance and beneficiary benefits pursuant to certain of 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 benefit plan	Supplemental post-employment physical examination plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2018					
Current service cost	**49,946**	**3,962**	**24,595**	**–**	**78,503**
Past service cost	**27,807**	**5,792**	**–**	**221,529**	**255,128**
Interest cost	**43,473**	**7,805**	**12,003**	**–**	**63,281**
Net benefit expense	**121,226**	**17,559**	**36,598**	**221,529**	**396,912**
Year ended 31 December 2017					
Current service cost	55,000	4,621	68,781	–	128,402
Past service cost	18,365	1,653	–	–	20,018
Interest cost	35,769	6,752	11,175	–	53,696
Net benefit expense	109,134	13,026	79,956	–	202,116

37. DEFINED BENEFIT PLANS *(Continued)*

(b) Present value of the defined benefit obligations

2018

	Supplemental post-retirement medical reimbursement plan *HK$'000*	Supplemental post-retirement allowance and beneficiary benefit plans *HK$'000*	Internal retirement benefit plan *HK$'000*	Supplemental post-employment physical examination plan *HK$'000*	Total *HK$'000*
At 1 January 2018	969,121	176,463	721,109	–	1,866,693
Net benefit expenses recognised in profit or loss	121,226	17,559	36,598	221,529	396,912
Benefits paid	(7,704)	(8,357)	(18,749)	–	(34,810)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	(86,183)	42,636	(70,408)	–	(113,955)
Exchange realignment	(40,952)	(9,382)	(28,520)	(9,104)	(87,958)
At 31 December 2018	955,508	218,919	640,030	212,425	2,026,882
Portion classified as current liabilities included in other payables, accruals and contract liabilities *(note 42)*					(15,549)
Non-current portion					2,011,333

37. DEFINED BENEFIT PLANS *(Continued)*

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

2017

	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 2017	913,532	174,519	558,987	1,647,038
Net benefit expenses recognised in profit or loss	109,134	13,026	79,956	202,116
Benefits paid	(6,398)	(7,453)	(17,891)	(31,742)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	(112,174)	(15,850)	12,876	(115,148)
Exchange realignment	65,027	12,221	87,181	164,429
At 31 December 2017	969,121	176,463	721,109	1,866,693
Portion classified as current liabilities included in other payables, accruals and contract liabilities *(note 42)*				(14,660)
Non-current portion				1,852,033

(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 2018 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:

	2018	2017
Beijing Gas Group		
Discount rate	**3.75%**	4.50%
Healthcare cost inflation rate	**7.00%**	8.00%
EEW Group		
Discount rate	**2.10%**	1.70%

37. DEFINED BENEFIT PLANS *(Continued)*

(c) Principal assumptions *(Continued)*

A quantitative sensitivity analysis for significant assumptions as at 31 December 2018 and 2017 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				
2018				
Discount rate	**0.25**	**(83,515)**	**0.25**	**91,100**
Healthcare cost inflation rate	**1.00**	**307,156**	**1.00**	**(219,570)**
2017				
Discount rate	0.25	(61,582)	0.25	67,379
Healthcare cost inflation rate	1.00	267,044	1.00	(190,468)
EEW Group				
2018				
Discount rate	**0.25**	**(43,272)**	**0.25**	**45,881**
2017				
Discount rate	0.25	(49,783)	0.25	49,658

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 2018, the expected contribution to be made within the next 12 months out of the defined benefit obligations was HK$15,549,000 (2017: HK$14,660,000).

38. PROVISION FOR ONEROUS CONTRACTS AND MAJOR OVERHAULS

Pursuant to the service concession arrangements on the Group's 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 plants in Germany, the Group is obliged to demolish the solid waste treatment plant in the year 2025. These contractual obligations to demolish plant, maintain or restore the infrastructures, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditures on these maintenance 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 arises from the solid waste treatment services contract entered for the solid waste treatment operation in Germany. Management considers the unavoidable costs of meeting the obligation under such contracts exceed the economic benefits expected to be recovered under such contracts.

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

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

	Notes	Major overhauls HK$'000	Onerous contracts HK$'000	Total HK$'000
At 1 January 2017		173,188	334,150	507,338
Additional provision		5,178	–	5,178
Increase in a discounted amount arising from the passage of time	7	1,470	–	1,470
Reversal of provision	6	(16,139)	(173,404)	(189,543)
Exchange realignment		22,912	38,788	61,700
At 31 December 2017		186,609	199,534	386,143
Portion classified as current liabilities		–	(53,156)	(53,156)
Non-current portion		186,609	146,378	332,987
At 1 January 2018		186,609	199,534	386,143
Additional provision		21,362	–	21,362
Increase in a discounted amount arising from the passage of time	7	2,190	–	2,190
Exchange realignment		(8,473)	(8,304)	(16,777)
At 31 December 2018		201,688	191,230	392,918
Portion classified as current liabilities		–	(50,944)	(50,944)
Non-current portion		201,688	140,286	341,974

39. OTHER NON-CURRENT LIABILITIES

	Note	2018 HK$'000	2017 HK$'000
Other liabilities – non-current portion	42	**205,198**	230,691
Deferred income		**1,503,644**	1,320,289
		1,708,842	1,550,980

40. DEFERRED TAX

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

	2018 HK$'000	2017 HK$'000
Deferred tax assets	**1,423,522**	1,293,072
Deferred tax liabilities	**(2,250,422)**	(2,594,476)
	(826,900)	(1,301,404)

40. DEFERRED TAX *(Continued)*

The components of deferred tax assets and liabilities and their movements during the year are as follows:

		Attributable to										
	Note	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$'000*	Provision for major overhauls and onerous contracts *HK$'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 2017		(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)
Deferred tax credited/(charged) to profit or loss during the year	*10*	96,637	(164)	2,042	(4,386)	–	81,085	56,039	(89,514)	–	–	–	141,739
Deferred tax charged to other comprehensive income during the year		–	–	–	–	(214,084)	–	(28,135)	–	–	–	–	(242,219)
Exchange realignment		(286,042)	(499)	(120,268)	(7,172)	(5,097)	71,049	45,152	15,723	(10,556)	1,677	–	(296,033)
At 31 December 2017		(1,344,641)	(2,844)	(694,581)	(110,504)	(232,321)	745,099	515,876	77,633	(158,332)	25,236	(122,025)	(1,301,404)

		Attributable to										
	Note	**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 of equity investments at fair value through other comprehensive income** ***HK$'000***	**Impairment provision and accrued expenses** ***HK$'000***	**Provision for bonus and defined benefit plans** ***HK$'000***	**Provision for major overhauls and onerous contracts** ***HK$'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 2018		**(1,344,641)**	**(2,844)**	**(694,581)**	**(110,504)**	**(232,321)**	**745,099**	**515,876**	**77,633**	**(158,332)**	**25,236**	**(122,025)**	**(1,301,404)**
Deferred tax credited/(charged) to profit or loss during the year	*10*	**92,313**	**(130)**	**(419)**	**13,147**	**–**	**78,469**	**105,188**	**1,571**	**(30,532)**	**(6,181)**	**–**	**253,426**
Deferred tax credited/(charged) to other comprehensive income during the year		**–**	**–**	**–**	**–**	**222,319**	**–**	**(32,007)**	**–**	**–**	**–**	**–**	**190,312**
Exchange realignment		**51,881**	**232**	**32,201**	**4,000**	**1,952**	**(19,893)**	**(24,720)**	**(3,292)**	**(10,807)**	**(788)**	**–**	**30,766**
At 31 December 2018		**(1,200,447)**	**(2,742)**	**(662,799)**	**(93,357)**	**(8,050)**	**803,675**	**564,337**	**75,912**	**(199,671)**	**18,267**	**(122,025)**	**(826,900)**

40. DEFERRED TAX *(Continued)*

Notes:

(a) At 31 December 2018, deferred tax assets have not been recognised in respect of unused tax losses of HK$5,036,445,000 (2017: losses of HK$4,028,406,000) 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$5,014,805,000 (2017: HK$4,006,766,000) 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. The applicable rate for the Group 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 rates applicable to dividend declared by subsidiaries in Germany and Luxembourg, and an associate in Russia are 25%, 15%, and 20%, respectively. The tax rates 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 Company's directors, it is not probable that these subsidiaries will distribute these unremitted earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries, joint ventures and associates in Mainland China, Germany and Luxembourg for which deferred tax liabilities have not been recognised totalled approximately HK$26,543,710,000 (2017: HK$19,280,476,000) as at 31 December 2018.

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

41. TRADE AND BILLS PAYABLES

An ageing 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:

	2018	2017
	HK$'000	*HK$'000*
Billed:		
Within one year	**2,529,803**	2,560,399
One to two years	**70,757**	141,279
Two to three years	**11,123**	14,636
Over three years	**24,034**	24,189
	2,635,717	2,740,503
Unbilled	**1,868,995**	1,381,471
	4,504,712	4,121,974

41. TRADE AND BILLS PAYABLES *(Continued)*

Included in the Group's trade and bills payables as at 31 December 2018 were amounts of HK$48,993,000 (2017: HK$52,577,000) due to fellow subsidiaries, which arose 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.

42. OTHER PAYABLES, ACCRUALS AND CONTRACT LIABILITIES

	Notes	**2018** **HK$'000**	2017 HK$'000
Accruals		**1,520,824**	1,243,278
Defined benefit plans – current portion	*37(b)*	**15,549**	14,660
Other liabilities	*(a)*	**8,634,384**	8,458,412
Due to holding companies	*27*	**2,531,598**	2,632,842
Due to related parties	*27*	**525,665**	298,738
Contract liabilities	*(b)*	**8,391,029**	–
Amounts due to contract customers		**–**	653,635
Receipt in advance		**–**	6,952,774
		21,619,049	20,254,339
Portion classified as current liabilities		**(21,413,851)**	(20,023,648)
Non-current portion	*39*	**205,198**	230,691

Notes:

(a) The Group's other liabilities as at 31 December 2018 included, inter alia, the following:

(i) an amount of HK$27,353,000 (2017: 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 these financial statements; and

(ii) construction costs of HK$175,805,000 (2017: HK$115,879,000) 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. OTHER PAYABLES, ACCRUALS AND CONTRACT LIABILITIES *(Continued)*

Notes: (Continued)

(b) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018	1 January 2018
	HK$'000	*HK$'000*
Short-term advances received from customers		
Sales of piped natural gas	**7,553,199**	6,719,156
Sales of brewery products	**746,260**	807,885
Solid waste treatment services contracts	**91,570**	79,368
Total contract liabilities	**8,391,029**	7,606,409

Over 90% of the contract liabilities at 1 January 2018 were recognised as revenue during the current year.

Over 90% of the contract liabilities as at 31 December 2018 are expected to be recognised as revenue in 2019.

Contract liabilities include short-term advances received from customers in respect of delivery of piped natural gas and brewery products and provision of solid waste treatment services.

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

Details of Yanjing Investment (an 79.77% 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:

	2018	2017
	HK$'000	*HK$'000*
Profit for the year allocated to non-controlling interests	**208,505**	64,599
Dividends paid to non-controlling interests of the Yanjing Investment Group	**137,901**	138,507
Accumulated balances of non-controlling interests at the reporting dates	**8,519,569**	8,813,113

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

(Continued)

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

	2018	2017
	HK$'000	*HK$'000*
Revenue	**12,366,723**	11,414,301
Total expenses	**(12,144,793)**	(11,332,177)
Profit for the year	**221,930**	82,124
Total comprehensive income/(loss) for the year	**(97,199)**	598,063
Current assets	**7,407,517**	7,698,677
Non-current assets	**13,447,025**	14,545,904
Current liabilities	**(6,128,219)**	(7,009,026)
Non-current liabilities	**(271,292)**	(245,836)
Net cash flows from operating activities	**935,456**	1,419,851
Net cash flows used in investing activities	**(445,558)**	(395,078)
Net cash flows used in financing activities	**(643,860)**	(635,327)
Net increase/(decrease) in cash and cash equivalents	**(153,962)**	389,446

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

44. DISPOSAL OF SUBSIDIARIES

	Note	2017 *HK$'000* *(note)*
Net assets disposed:		
Property, plant and equipment		752,075
Goodwill		75,335
Interests in associates		475,825
Deferred tax assets		3,509
Other intangible assets		25,628
Inventories		39,493
Trade and bills receivables		52,260
Prepayments, deposits and other receivables		48,675
Other tax recoverable		35,116
Cash and cash equivalents		232,997
Bank and other borrowings		(149,425)
Trade and bills payables		(62,812)
Other payables and accruals		(5,569)
Receipts in advance		(110,357)
Income tax payables		(540)
Non-controlling interests		(30,230)
Total net assets disposed of		1,381,980
Exchange fluctuation reserve		(15,530)
Gain on disposal of subsidiaries	*5*	14,389
Consideration transferred		1,380,839
Satisfied by:		
Additional interest in an associate		1,380,839

44. DISPOSAL OF SUBSIDIARIES *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

	2017 *HK$'000*
Cash consideration	–
Cash and bank balances disposed of	(232,997)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(232,997)

Note:

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 then 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.

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 the revised consideration of RMB1,213 million (equivalent to approximately HK$1,534 million), which shall 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 since 2015 until the completion of the transaction on 16 February 2017. A total of 110,823,011 shares of China Gas were then allotted and issued as consideration to the Group (note 20(a)).

45. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

Apart from the transactions as detailed in notes 20 and 44 to the financial statements, the Group had no other major non-cash transactions of investing and financing activities during the years ended 31 December 2018 and 2017.

(b) Changes in liabilities arising from financing activities

	Bank and other borrowings *HK$'000*	Guaranteed bonds, notes and senior notes *HK$'000*
At 1 January 2017	31,295,143	19,333,950
Changes from financing cash flows	(4,353,392)	10,977,334
Foreign exchange movement	2,134,852	1,069,026
Interest expense	–	30,195
At 31 December 2017 and 1 January 2018	29,076,603	31,410,505
Changes from financing cash flows	(197,078)	–
Foreign exchange movement	(381,617)	(471,833)
Interest expense	–	86,135
At 31 December 2018	28,497,908	31,024,807

46. CONTINGENT LIABILITIES

As at the end of the reporting period, the Group had no significant contingent liabilities not provided for in the financial statements.

47. 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:

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**48,494**	41,334
In the second to fifth years, inclusive	**76,970**	40,999
	125,464	82,333

(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:

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**110,097**	94,877
In the second to fifth years, inclusive	**149,432**	173,784
After five years	**536,889**	596,403
	796,418	865,064

48. CAPITAL COMMITMENTS

As at the end of the reporting period, the Group had the following capital commitments:

	2018	2017
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Buildings	**4,731**	6,358
Gas pipelines and plant and machinery	**2,464,989**	2,506,178
New service concession arrangements	**188,746**	642,699
	2,658,466	3,155,235

49. 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	2018 HK$'000	2017 HK$'000
Non-controlling equity holders of subsidiaries and their associates:				
Yanjing Beer Group and its associates	Purchase of bottle labels[γ]	*(i)*	**67,411**	37,524
	Purchase of bottle caps[γ]	*(i)*	**51,541**	19,288
	Canning service fees paid[γ]	*(ii)*	**11,912**	12,438
	Comprehensive support service fees paid[γ]	*(iii)*	**18,506**	18,076
	Land rent expenses[γ]	*(iv)*	**2,085**	2,150
	Trademark licensing fees paid[γ]	*(v)*	**66,889**	60,516
	Less: refund for advertising subsidies[γ]	*(v)*	**(2,052)**	(5,998)
Fellow subsidiaries:				
Beiran Enterprises and its subsidiaries	Sale of gas[#]	*(vi)*	**230,593**	152,729
	Engineering service income[#]	*(vii)*	**25,741**	31,094
	Comprehensive service income[#]	*(vii)*	**7,425**	8,795
	Sale of goods[#]	*(x)*	**45,908**	98,281
	Engineering service expenses[#]	*(vii)*	**207,020**	162,441
	Comprehensive service expenses[#]	*(vii)*	**42,886**	32,998
	Building rental expenses[#]	*(viii)*	**135,288**	107,539
	Building rental income[#]	*(viii)*	**–**	437
	Purchase of goods[#]	*(viii)*	**134,953**	118,935
Associate:				
Beijing Enterprises Group Finance Co., Ltd.	Interest expense	*(ix)*	**64,210**	71,398
	Interest income	*(ix)*	**43,411**	23,446

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.*

49. 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 RMB1,751,000 (equivalent to HK$2,085,000) (2017: RMB1,849,000 (equivalent to HK$2,150,000)) per annum.

(v) The trademark licensing fees paid were for the use of the "Yanjing" trademark and were determined based on 1% (2017: 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.

49. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Notes: (Continued)

(ix) Beijing Enterprises Group Finance Co. Ltd. ("BE Group Finance") is a 38.78% owned associate of the Group and also a subsidiary of Beijing Enterprises Group. BE Group Finance was established to act as a platform for members of Beijing Enterprises Group for the provision of intra-group facilities through financial products including deposit-taking, money-lending and custodian services.

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 Service 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 Service Master Agreement. The revised daily aggregate of deposits placed by the Group with BE Group Finance (including any interest accrued thereon) during the term of the Deposit Agreement will not exceed HK$2,200 million.

On 19 October 2017, the Company and BE Group Finance entered into the Supplementary Agreement (the "Supplementary Agreement") whereby the annual cap shall be replaced by the revised annual cap during the remaining term of the Deposit Agreement. The revised daily aggregate of deposits placed by the Group with BE Group Finance (including any interest accrued thereon) during the remaining term of the Deposit Agreement from 19 October 2017 to 31 December 2019 will not exceed HK$2,900 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 the People's Bank of China, while the related interest rates for deposits and loans denominated in other currencies were determined by reference to the then prevailing market rates offered by major 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.

49. RELATED PARTY DISCLOSURES *(Continued)*

(b) Outstanding balances with related parties

(i) Details of the Group's balances with related parties included in deposits and other receivables and other payables, accruals and contract liabilities are disclosed in notes 26 and 42 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, 25(a), 26, 27, 35(b)(ii), 41 and 42 to the financial statements, respectively.

(c) Transactions with other state-owned entities in Mainland China

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the year, the Group has transactions with Other SOEs including, but not limited to, the sale of piped natural gas, bank deposits and borrowings, and utilities consumptions. The directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the Company's directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(d) Compensation of key management personnel of the Group

	2018 ***HK$'000***	2017 *HK$'000*
Short term employee benefits	**26,552**	25,949
Pension scheme contributions	**29**	29
Total compensation paid to key management personnel	**26,581**	25,978

Further details of directors' emoluments are included in note 8 to the financial statements.

50. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2018 are as follows:

Financial assets

	2018			
	Equity investments at fair value through other comprehensive income	Mandatory classified as financial asset at fair value through profit or loss	Financial assets at amortised cost	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity investments designated at fair value through other comprehensive income	2,908,338	–	–	2,908,338
Receivables under service concession contracts	–	–	1,931,397	1,931,397
Receivables under finance lease	–	–	927,832	927,832
Trade receivables	–	–	5,216,897	5,216,897
Financial assets included in prepayments, other receivables and other assets	–	–	3,748,579	3,748,579
Financial asset at fair value through profit or loss	–	2,301,452	–	2,301,452
Restricted cash and pledged deposits	–	–	39,983	39,983
Cash and cash equivalents	–	–	17,935,496	17,935,496
	2,908,338	2,301,452	29,800,184	35,009,974

50. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial liabilities

	2018 Financial liabilities at amortised cost *HK$'000*
Trade and bills payables	**4,504,712**
Financial liabilities included in other payables, accruals and contract liabilities	**17,764,112**
Guaranteed bonds, notes and senior notes	**31,024,807**
Bank and other borrowings	**28,497,908**
	81,791,539

As at 31 December 2017, other than derivative financial instruments and certain equity investments being classified as available-for-sale investments, as disclosed in notes 22 and 23 to the financial statements, all financial assets and liabilities of the Group were loans and receivables, and financial liabilities stated at amortised cost, respectively.

51. 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 36 to these financial statements, the fair value of the Group's guaranteed bonds, notes and senior notes was HK$31,957,012,000 (2017: HK$33,492,814,000) and determined as Level 1. The fair value of the Group's guaranteed bonds, notes and senior notes are based on price quotations from financial institutions at the reporting date.

As disclosed in note 22 to these financial statements, the fair value of the Group's derivative components of convertible bonds as at 31 December 2017 was determined as Level 3. The fair value of the Group's derivative components of convertible bonds are based on significant unobservable inputs.

51. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

As disclosed in notes 23 and 28 to these financial statements, the listed equity investments of the Group are stated at fair value based on their quoted market prices (as categorised within Level 1 of the fair value hierarchy), the unlisted fund investment of the Group is stated at fair value based on a market-based valuation (as categorised within Level 2 of the fair value hierarchy); whilst the unlisted equity and fund investments of the Group were stated at cost less any accumulated impairment losses as at 31 December 2017 because fair values of which could not be reasonably assessed and therefore, no disclosure of the fair values of these financial instruments was made.

The fair value of unlisted investment in a fund classified as financial asset at fair value through profit or loss (note 28), which was previously classified as available-for-sale non-equity investment, has been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the Company's directors to determine comparable companies (peers) based on industry, size, leverage strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to book ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an book value measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted investment to measure the fair value. The Company's directors believe that the estimated fair value resulting from the valuation technique, which is recorded in the consolidated statement of financial position, is reasonable, and that it was the most appropriate value at the end of the reporting period. The management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model and has quantified this as a reduction in fair value of approximately HK$57,919,000, using less favourable assumptions, and an increase in fair value of approximately HK$57,919,000, using more favourable assumptions.

For other non-current financial assets and liabilities, in the opinion of the directors of the Company, since their carrying amounts are not significantly different from their respective fair values, no disclosure of the fair values of these financial instruments is made.

51. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Below is a summary of significant unobservable inputs to the valuation of the financial instrument together with a quantitative sensitivity analysis as at 31 December 2018:

	Valuation technique	Significant unobservable input	Value	Sensitivity of fair value to the input
Unlisted investment in a fund	Valuation multiples	Average EV/EBITDA multiple of peers	3.0 to 11.3	1% increase/decrease in multiple would result in increase/ decrease in fair value by HK$10,944,000
		Average P/B multiple of peers	1.0 to 6.3	1% increase/decrease in multiple would result in increase/ decrease in fair value by HK$12,742,000
		Discount for lack of marketability	14.4%	1% increase/decrease in discount would results in decrease/ increase in fair value by HK$34,232,000

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investment.

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, the guaranteed bonds, notes 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 trade and bills receivables, contract assets, other receivables and other assets, trade and bills payables, other payables, accruals and contract liabilities, receivables under service concession arrangements and amounts due from/to holding companies, fellow subsidiaries, associates, joint ventures, and related parties.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and fair value risk. The board of directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations.

Bank and other borrowings, the guaranteed bonds, notes 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.

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:

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

	Total *HK$'000*	Effective interest rate *%*
At 31 December 2018		
Floating rate:		
Restricted cash and pledged deposits	**39,983**	**0.35**
Cash and cash equivalents	**10,048,152**	**0.35**
Interest-bearing bank and other borrowings	**(26,151,731)**	**3.04**
Fixed rate:		
Cash and cash equivalents	**7,887,344**	**1.10**
Interest-bearing bank and other borrowings	**(2,196,201)**	**3.33**
Guaranteed bonds, notes and senior notes	**(31,024,807)**	**3.39**
At 31 December 2017		
Floating rate:		
Restricted cash and pledged deposits	43,311	0.35
Cash and cash equivalents	8,984,504	0.35
Interest-bearing bank and other borrowings	(27,097,266)	1.94
Fixed rate:		
Cash and cash equivalents	8,857,105	1.12
Interest-bearing bank and other borrowings	(1,833,366)	3.37
Guaranteed bonds, notes and senior notes	(31,410,505)	3.35

At 31 December 2018, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK$87,359,000 (2017: HK$116,563,000).

52. 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 2017.

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*
2018		
If Hong Kong dollar weakens against RMB by 5%	**410,293**	**3,549,661**
If Hong Kong dollar strengthens against RMB by 5%	**(410,293)**	**(3,549,661)**
2017		
If Hong Kong dollar weakens against RMB by 5%	344,916	3,417,766
If Hong Kong dollar strengthens against RMB by 5%	(344,916)	(3,417,766)

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.

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group is exposed to credit risk arising from its piped gas operation, brewery operation and solid waste treatment operation. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on individual customer's past history of making payments when they fall due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Various companies have different credit policies, depending on markets and businesses in which they operate. Ageing analysis of trade and bills receivables is prepared and closely monitored in order to minimise any credit risk associated with the receivables. Normally, the Group does not obtain collateral from customers. In respect of the amounts due from contract customers for contract work arising from the Group's solid waste treatment operation, the Group transacts mainly with municipal governments in different provinces in the PRC which do not have significant credit risk.

Maximum exposure and year-end staging as at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables*	–	–	–	5,216,897	5,216,897
Financial assets included in prepayments, other receivables and other assets					
– Normal**	3,791,526	–	–	–	3,791,526
Restricted cash and pledged deposits					
– Not yet past due	39,983	–	–	–	39,983
Cash and cash equivalents					
– Not yet past due	17,935,496	–	–	–	17,935,496
	21,767,005	–	–	5,216,897	26,983,902

* *For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 25 to the financial statements.*

** *The credit quality of the financial assets (other than contract assets) included in prepayments, other receivables and other assets is considered as "normal" when they are not past due and there is no information indicating that the financial assets have significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered as "doubtful".*

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Maximum exposure as at 31 December 2017

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.

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 25 to the financial statements, respectively.

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, notes 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 the management of the Group. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities (other than defined benefit plans) as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

At 31 December 2018

	On demand or within 1 year	**In the second year**	**3 to 5 years**	**Beyond 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Bank loans	**1,026,241**	**5,108,627**	**21,530,177**	**1,600,290**	**29,265,335**
Other loans	**573,795**	**159,777**	**1,073,814**	**280,010**	**2,087,396**
Guaranteed bonds, notes and senior notes	**1,057,651**	**5,547,651**	**23,779,338**	**9,520,575**	**39,905,215**
Trade and bills payables	**4,504,712**	**–**	**–**	**–**	**4,504,712**
Accruals and other liabilities	**17,558,914**	**205,198**	**–**	**–**	**17,764,112**
Due to a holding companies	**2,531,598**	**–**	**–**	**–**	**2,531,598**
Due to related parties	**525,665**	**–**	**–**	**–**	**525,665**
	27,778,576	**11,021,253**	**46,383,329**	**11,400,875**	**96,584,033**

At 31 December 2017

	On demand or within 1 year	In the second year	3 to 5 years	Beyond 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	5,639,017	1,168,837	20,808,183	1,560,037	29,176,074
Other loans	851,111	208,814	428,910	479,933	1,968,768
Guaranteed bonds, notes and senior notes	1,055,032	1,055,032	29,194,210	9,698,274	41,002,548
Trade and bills payables	4,121,974	–	–	–	4,121,974
Accruals and other liabilities	9,485,659	230,691	–	–	9,716,350
Due to a holding companies	2,632,842	–	–	–	2,632,842
Due to related parties	298,738	–	–	–	298,738
	24,084,373	2,663,374	50,431,303	11,738,244	88,917,294

52. 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 51 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 2018 and 2017.

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, notes 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:

	2018 ***HK$'000***	2017 *HK$'000*
Guaranteed bonds, notes and senior notes	**31,024,807**	31,410,505
Total bank and other borrowings	**28,497,908**	29,076,603
Less: Cash and bank balances and time deposits	**(17,975,479)**	(17,884,920)
Net borrowing	**41,547,236**	42,602,188
Total equity	**81,015,372**	79,173,005
Gearing ratio	**51.3%**	53.8%

53. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 31 December 2018 amounted to HK$3,610,579,000 (2017: HK$1,452,559,000) and HK$145,311,251,000 (2017: HK$139,598,850,000), respectively.

54. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated in the preparation of these financial statements as a result of the completion of the initial accounting for the acquisition of VCNG, details of which are set out in note 20(b) of the financial statements.

Certain comparative amounts have been reclassified and re-presented to conform to the current year's presentation.

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:

	2018	2017
	HK$'000	*HK$'000*
ASSETS		
Non-current assets:		
Property, plant and equipment	**3,083**	1,439
Investment properties	**56,914**	56,914
Investments in subsidiaries	**68,334,620**	67,955,554
Investments in associates	**332,687**	332,687
Equity investments designated at fair value through other comprehensive income	**1,256,081**	–
Available-for-sale investments	**–**	1,256,081
Total non-current assets	**69,983,385**	69,602,675
Current assets:		
Trade and bills receivables	**1,004**	1,012
Prepayments, other receivables and other assets	**118,225**	101,151
Cash and cash equivalents	**597,402**	1,794,890
Total current assets	**716,631**	1,897,053
TOTAL ASSETS	**70,700,016**	71,499,728

55. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2018 HK$'000	2017 HK$'000
EQUITY AND LIABILITIES		
Equity:		
Share capital	**30,401,883**	30,401,883
Reserves *(note)*	**1,023,134**	1,033,291
TOTAL EQUITY	**31,425,017**	31,435,174
Non-current liabilities:		
Bank and other borrowings	**16,676,765**	14,832,571
Total non-current liabilities	**16,676,765**	14,832,571
Current liabilities:		
Other payables and accruals	**1,760,339**	1,786,847
Income tax payable	**85,372**	85,372
Bank and other borrowings	**300,000**	300,000
Due to subsidiaries	**20,452,523**	23,059,764
Total current liabilities	**22,598,234**	25,231,983
TOTAL LIABILITIES	**39,274,999**	40,064,554
TOTAL EQUITY AND LIABILITIES	**70,700,016**	71,499,728

Hou Zibo
Director

Tam Chun Fai
Director

55. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

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

	Capital reserve HK$'000	Fair value reserve of equity instruments at fair value through other comprehensive income/ available-for-sale investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	13,220	(22,773)	17,561	1,175,278	1,183,286
Profit for the year and total comprehensive income for the year	–	–	–	1,052,754	1,052,754
Final 2016 dividend declared	–	–	–	(820,400)	(820,400)
Interim 2017 dividend	–	–	–	(378,616)	(378,616)
Shares repurchased and cancelled	–	–	–	(3,733)	(3,733)
At 31 December 2017 and 1 January 2018	13,220	(22,773)	17,561	1,025,283	1,033,291
Profit for the year and total comprehensive income for the year	–	–	–	1,251,896	1,251,896
Final 2017 dividend declared	–	–	–	(858,196)	(858,196)
Interim 2018 dividend	–	–	–	(403,857)	(403,857)
At 31 December 2018	13,220	(22,773)	17,561	1,015,126	1,023,134

56. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2019.

FIVE YEAR FINANCIAL SUMMARY

31 December 2018

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the published audited financial statements and the annual report of the Company for the year ended 31 December 2017, is set out below:

RESULTS

	Year ended 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	47,935,795	60,149,945	55,958,834	57,508,025	**67,764,770**
Operating profit	2,158,562	1,929,945	2,547,072	2,177,855	**2,435,720**
Share of profits and losses of:					
Joint ventures	4,827	(183)	6,623	26,609	**(6,715)**
Associates	3,807,092	4,708,112	4,943,273	5,827,944	**6,666,446**
Profit before tax	5,970,481	6,637,874	7,496,968	8,032,408	**9,095,451**
Income tax	(564,834)	(681,961)	(857,723)	(845,131)	**(1,158,810)**
Profit for the year	5,405,647	5,955,913	6,639,245	7,187,277	**7,936,641**
ATTRIBUTABLE TO:					
Shareholders of the Company	4,831,678	5,667,378	6,235,883	6,880,378	**7,577,383**
Non-controlling interests	573,969	288,535	403,362	306,899	**359,258**
	5,405,647	5,955,913	6,639,245	7,187,277	**7,936,641**

FIVE YEAR FINANCIAL SUMMARY

31 December 2018

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	124,173,816	124,766,040	144,708,761	171,549,018	**174,496,280**
Total liabilities	(56,077,836)	(56,113,870)	(76,669,835)	(92,376,013)	**(93,480,908)**
NET ASSETS	68,095,980	68,652,170	68,038,926	79,173,005	**81,015,372**
Equity attributable to shareholders of the Company	57,176,356	58,187,267	57,321,208	67,568,050	**69,672,617**
Non-controlling interests	10,919,624	10,464,903	10,717,718	11,604,955	**11,342,755**
TOTAL EQUITY	68,095,980	68,652,170	68,038,926	79,173,005	**81,015,372**

GLOSSARY

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

"2019 AGM"	:	forthcoming annual general meeting of the Company to be held on 11 June 2019
"AGM(s)"	:	annual general meeting(s) of the Company
"Articles of Association"	:	the current articles of association of the Company adopted on 11 June 2015
"Audit Committee"	:	audit committee of the Company
"BE Environment"	:	Beijing Enterprises Environment Group Limited, a company listed on the HKSE (stock code: 154)
"BE Group"	:	Beijing Enterprises Group Company Limited* (北京控股集團有限公司), a company incorporated in the PRC with limited liability. It is a state-owned enterprise wholly-owned by SASAC of Beijing Municipality and is the ultimate controlling shareholder of the Company
"BE Group BVI"	:	Beijing Enterprises Group (BVI) Company Limited
"BE Group Finance"	:	Beijing Enterprises Group Finance Co. Ltd.* (北京控股集團財務有限公司)
"BE Water"	:	Beijing Enterprises Water Group Limited, a company listed on the HKSE (stock code: 371)
"BEGIL"	:	Beijing Enterprises Group Information Limited
"BEHET"	:	Beijing Enterprises Holdings Environment Technology Co., Ltd.* (北京北控環保工程技術有限公司)
"Beijing Gas"	:	Beijing Gas Group Company Limited
"BEIL"	:	Beijing Enterprises Investments Limited
"Biosino Bio-Tech"	:	Biosino Bio-Technology and Science Incorporation, a company listed on the HKSE (stock code: 8247)
"Blue Sky"	:	Beijing Gas Blue Sky Holdings Limited, a company listed on the HKSE (stock code: 6828)
"Board"	:	the board of Directors
"Chief Executive" or "CEO"	:	the Chief Executive Officer of the Company

GLOSSARY

"China Gas"	:	China Gas Holdings Limited, a company listed on the HKSE (stock code: 384)
"Company" or "BEHL"	:	Beijing Enterprises Holdings Limited, a company listed on the HKSE (stock code: 392)
"Companies Ordinance"	:	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time
"Director(s)"	:	the director(s) of the Company
"EEW GmbH"	:	EEW Energy from Waste GmbH
"Euro" or "EUR"	:	the Euro, the lawful currency of the member states of the European Union
"Executive Director"	:	executive director of the Company
"Group"	:	The Company and its subsidiaries from time to time
"GSWM"	:	Golden State Waste Management Corporation
"HKSE" or "Hong Kong Stock Exchange"	:	The Stock Exchange of Hong Kong Limited
"HKFRSs"	:	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"HK$"	:	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	:	The Hong Kong Special Administrative Region of the People's Republic of China
"Independent Non-executive Director(s)" or "INED(s)"	:	independent non-executive director(s) of the Company
"Investment Committee"	:	investment committee of the Company
"Jingtang" or "Jingtang LNG"	:	PetroChina Jingtang LNG Co., Ltd.*（中石油京唐液化天然氣有限公司）
"Listing Rules"	:	the Rules Governing the Listing of Securities on the HKSE
"Model Code"	:	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"MOL"	:	Modern Orient Limited
"Nomination Committee"	:	nomination committee of the Company

GLOSSARY

"PetroChina Beijing Pipeline Co." or "PetroChina Beijing Gas"	:	PetroChina Beijing Gas Pipeline Co., Ltd.*（中石油北京天然氣管道有限公司）
"PPP"	:	public-private partnership
"PRC" or "China"	:	the People's Republic of China, and for the purpose of this Report, excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Remuneration Committee"	:	remuneration committee of the Company
"Report"	:	this 2018 annual report of the Company
"RMB"	:	Renminbi, the lawful currency of the PRC
"SASAC of Beijing Municipality"	:	the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality
"Senior Management"	:	member(s) of the senior management of the Company
"SFO"	:	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"Shareholder(s)"	:	holder(s) of Share(s)
"Shares"	:	ordinary share(s) in the capital of the Company
"Shine Power"	:	Shine Power International Limited
"US$"	:	United States dollar, the lawful currency of the United States of America
"VCNG"	:	PJSC Verkhnechonskneftegaz project of Rosneft Oil Company
"Yanjing Brewery"	:	Beijing Yanjing Brewery Co., Ltd.*（北京燕京啤酒股份有限公司）, a company listed on the Shenzhen Stock Exchange (stock code: 000729)
"Yanjing Group" or "Yanjing Beer Group"	:	Beijing Yan Jing Beer Group Company*（北京燕京啤酒集團公司）
"Yanjing Huiquan"	:	FuJian YanJing HuiQuan Brewery Co., Ltd.*（福建省燕京惠泉啤酒股份有限公司）, a company listed on the Shanghai Stock Exchange (stock code: 600573)
"Yanjing Investment" or "Yanjing Limited"	:	Beijing Yanjing Brewery Investments Co., Ltd.*（北京燕京啤酒投資有限公司）

* *For identification purpose only*

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED